

# STRATEGIC MANAGEMENT

**MBA IV-Semester (Osmania University)**



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**FACULTY OF MANAGEMENT****MBA (CBCS) IV-Semester Examinations***Model Paper-I***STRATEGIC MANAGEMENT**

Time: 3 Hours

Max. Marks: 80

**Note :** Answer all the questions from **Part-A** and **Part-B**.Each question carries 4 marks in **Part-A** and 12 marks in **Part-B**.**PART-A (5 × 4 = 20 Marks)***(Short Answer Type)****Solutions***

1.	What is strategic management?	(Unit-I / Page No. 1.24 / Q1)
2.	What is value chain analysis?	(Unit-II / Page No. 2.24 / Q2)
3.	What are the stages in industry life cycle?	(Unit-III / Page No. 3.29 / Q1)
4.	State the objectives of Mergers and Acquisitions.	(Unit-IV / Page No. 4.35 / Q4)
5.	What is meant by social responsibility?	(Unit-V / Page No. 5.39 / Q2)

**PART-B (5 × 12 = 60 Marks)***(Essay Answer Type)*

6.	(a) Discuss the need for and benefits of strategic management.	(Unit-I / Page No. 1.3 / Q2)
	OR	
	(b) What is mission statement? Discuss briefly the characteristics and benefits of a mission statement.	(Unit-I / Page No. 1.12 / Q10)
7.	(a) Explain the evaluation of company's external and internal environment for creating strategy.	(Unit-II / Page No. 2.2 / Q3)
	OR	
	(b) What are organizational resources? What are its types and why are they valued?	(Unit-II / Page No. 2.17 / Q22)
8.	(a) Define strategy and explain how strategy is formulated.	(Unit-III / Page No. 3.2 / Q1)
	OR	
	(b) Describe relevant strategies for industry leaders.	(Unit-III / Page No. 3.24 / Q27)
9.	(a) What is an international strategy? Explain the traditional and emerging motives that cause firms to expand internationally.	(Unit-IV / Page No. 4.12 / Q14)
	OR	
	(b) Define outsourcing. Explain the growth and drivers of outsourcing.	(Unit-IV / Page No. 4.22 / Q25)
10.	(a) Define strategy implementation. Explain the McKinsey's 7-S framework.	(Unit-V / Page No. 5.2 / Q1)
	OR	
	(b) Discuss the need for and applicability of corporate governance in Indian environment.	(Unit-V / Page No. 5.13 / Q13)

**R16****MODEL PAPER | 2****FACULTY OF MANAGEMENT****MBA (CBCS) IV-Semester Examinations***Model Paper-II***STRATEGIC MANAGEMENT**

Time: 3 Hours

Max. Marks: 80

**Note :** Answer all the questions from **Part-A** and **Part-B**.Each question carries 4 marks in **Part-A** and 12 marks in **Part-B**.**PART-A (5 × 4 = 20 Marks)***(Short Answer Type)**Solutions*

1. What is competitive advantage? (Unit-III / Page No. 3.30 / Q3)
2. What is corporate governance? (Unit-V / Page No. 5.39 / Q1)
3. What is meant by core competency? (Unit-II / Page No. 2.24 / Q1)
4. Write a note on mission statement and objectives. (Unit-I / Page No. 1.24 / Q2)
5. What is related diversification? (Unit-IV / Page No. 4.36 / Q7)

**PART-B (5 × 12 = 60 Marks)***(Essay Answer Type)*

6. (a) Explain the process and need for strategic management. (Unit-I / Page No. 1.4 / Q3)  
OR  
(b) Discuss a model of elements in strategic management system. (Unit-I / Page No. 1.20 / Q19)
7. (a) Explain in detail about various components of external environment. (Unit-II / Page No. 2.4 / Q6)  
OR  
(b) Discuss organisational capabilities with its types and show the drivers of organisation capabilities. (Unit-II / Page No. 2.21 / Q26)
8. (a) Examine the pros and cons of generic strategies. (Unit-III / Page No. 3.15 / Q19)  
OR  
(b) Discuss in detail about focus strategy. (Unit-III / Page No. 3.13 / Q17)
9. (a) Define diversification. Explain three different levels of diversification. (Unit-IV / Page No. 4.8 / Q8)  
OR  
(b) Explain the offensive and defensive strategies. (Unit-IV / Page No. 4.16 / Q19)
10. (a) What are the different techniques of strategic evaluation and control? (Unit-V / Page No. 5.10 / Q10)  
OR  
(b) What is strategic leadership? What are its themes? (Unit-V / Page No. 5.28 / Q28)

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# **UNIT**

## **1**

### **Introduction to Strategic Management**

#### **LEARNING OBJECTIVES**

After studing this unit, one would be able to understand,

- ❖ The Concept of Strategy and Strategic Management along with its Elements.
- ❖ Need, Benefits and Challenges of Strategic Management.
- ❖ Tasks Involved in Strategic Management.
- ❖ The Process of Strategic Management.
- ❖ Concept of Strategic Intent.
- ❖ The Model of Elements of Strategic Management.
- ❖ The Effects of Strategic Position on Organisation.
- ❖ Various Issues Involved in Strategic Choices and Strategy into Action.

#### **INTRODUCTION**

Strategic management process basically deals with a series of steps through which the firm's management aims at transforming the mission, objectives and goals into an efficient strategy. In today's rapidly changing environment, the firm must try to formulate its strategic management process in such a way that it effectively goes along well with its own capabilities and situational needs.

A strategy is a comprehensive plan wherein all the components of plan are interrelated with each other. Crafting and executing strategy are the most important managerial functions on which the success or failure of the company relies upon.

There are three basic elements of strategic management first is understanding the strategic position of an organisation, secondly making the strategic choices for the future and lastly turning the strategy into action. The strategic position is concerned with the process of determining the impact on external environment of the strategy, strategic capability of organisation and expectations and impact of stakeholders. Strategic choices refers to the knowledge of underlying bases for future strategy at business unit and corporate levels and alternatives for developing strategy in terms of directions of strategy and methods of development. Strategy into action deals with assuring that strategies are working in practice.

**1.1 STRATEGIC MANAGEMENT – DEFINITION AND PROCESS**

Q1. What is strategy? Explain the characteristics and elements of strategy.

OR

Discuss the elements of strategy.

(Refer Only Topic: Elements of Strategy)

**Answer :**

May/June-12, Q2(b)

**Strategy**

A strategy acts as a source for attaining the objectives. A strategy is an amalgamated or integrated plan which helps in connecting all the components of an organisation together. A strategy is a comprehensive plan wherein all the components of a plan are consistent with each other and joins together effectively.

Thus, a strategy is a unified, comprehensive and integrated plan which associates the firms strategic advantages with the environmental challenges.

A strategy is formulated mainly for assuring that the organisational objectives are effectively attained by implementing it effectively in the organization.

A strategy provides a framework for planning the courses of action. The main objective of a strategy is to facilitate the firms to attain competitive advantage over its rivals.

The firm can attain competitive advantage with the help of its unique capability to perform the things uniquely and effectively when compared to its competitors. The unique capability includes specialized skills, expertise knowledge, superior quality etc.

The concept of strategy can be clearly explained by using the term “terrain” which in business terms means the markets. Segments and products which are used by firms to attract and acquire the customers. The basic principle of strategy is to match or fit the strength and unique capabilities of the firm with terrain in such a manner that the firm’s business can be benefitted by attaining the competitive advantage over the competitors competing in the same terrain.

**Characteristics of Strategy**

The following are the characteristics which are related with the term ‘strategy’ and ‘strategic decisions’,

1. Strategy is usually long term oriented in nature.
2. Most of the strategic decision are greatly concerned with the scope of an organisation’s activities.
3. Usually the strategic decision aims at achieving few benefits for the organisation over competition.
4. Strategy is basically regarded as the strategic fit which matches well along with the business environment. It also demands major resource changes for an organisation in the future.
5. Strategy generates various opportunities by developing the resources and capabilities of an organisation.
6. The strategy of an organisation is influenced not only by the environmental forces and strategic capability but also by the values and expectations of those people who have authority in and around the organisation.

Therefore, in short strategy refers to the ‘long-term direction of an organisation’. Based on the above characteristics, the definition of a strategy would be strategy is the direction and the scope of an organisation for a long period of time which receives the benefits in a changing environment by configuring the resources and capabilities with the objective of satisfying the expectations of stakeholders.

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**Elements of Strategy**

The following are the important elements of a strategy.

**1. Goals**

A firm's strategy denotes its long-term goals or objectives towards which all the efforts of the employees are directed. The various long-term goals of a firm are to rule the market, to be the technology leader or to be a superior quality firm. These long-term goals facilitate the employees to work collectively and provide their best which in turn helps the firm to exhibit its competitive position clearly to the competitors.

**2. Scope**

A strategy elucidates the scope of a firm i.e., the type of products and services it is offering, the markets in which it is planning to operate and the tasks which it is going to perform. Apart from this, it also focuses on the tasks which the firm is not going to perform.

**3. Competitive Advantage**

A strategy also provides a vivid picture of competitive advantages which the firm is going to attain and sustain/retain. The firm will attain the competitive advantage, when it performs its tasks with a unique capability which separates it from other competitors. The firm adopts different steps like manufacturing the highest quality product, providing best customer service, low production cost and concentrating resources on a particular segment, for attaining competitive advantage over its competitors.

**4. Logic**

This is the most crucial element of strategy which helps the firm to attain competitive advantage over its competitors.

**Q2. Define Strategic Management. Discuss the need and benefits of strategic management.**

OR

**Discuss the need and benefits of strategic management.**

(Refer Only Topics: Need for Strategic Management, Benefits of Strategic Management)

**Answer :**

(Model Paper-I, Q6(a) | May-13, Q2(a))

**Strategic Management**

'Samuel C. Certo and J. Paul Peter' defined strategic management "As a continuous, interactive, cross-functional process aimed at keeping an organisation as a whole appropriately matched to its environment".

'Schellen Berger and Bosenman' defined strategic management "As a continuous process of effectively relating the organisation's objectives and resources to the opportunities in the environment".

**Need for Strategic Management**

The following points explain the need for strategic management,

**1. Give Guidelines**

Strategic management give guidelines to employer regarding what organisation expects them to do. This guideline makes employers clear about what their jobs are demanding and what performance they are supposed to give. Strategic management offer incentive to employer and assist the organisation in the attainment of objectives.

**2. Chances of Good Performance**

Most of the research studies state that there exists a relationship between good performance and formal. Planning and companies which do strategic planning will have more chances to succeed than companies who don't do strategic planning.

**3. Facilitates Communication**

Strategic management facilitates free flow of communication of information from bottom level managers to middle level managers to top level managers.

**4. Allocation of Resources**

Strategic management assist in selecting achievable and realistic projects and in turn enhances the allocation of resources to realistic projects.

## STRATEGIC MANAGEMENT

1.4

### 5. Allows Forecasting of Change

Change is stable or constant and it makes planning a complicated task. Companies might pro-act to the changes in the environment instead of responding to change. Strategic management motivate top level managers to forecast the changes in the environment to direct and control them. Apart from this, strategic management permit company to grab the opportunities coming out of the changes in the environment and overcome threats by forecasting future change. Therefore, strategic management permit firms to take decisions based on long-term forecasts.

### 6. Assist Managers in Getting a Holistic Approach

Strategic management assist managers in getting a full awareness regarding the company and in acquiring a Holistic approach with respect to business problems and proportions.

### 7. Systematic Decision Making

Strategic management give information to managers regarding various business transactions which assist managers in making business decisions in a systematic manner.

### 8. Enhances Coordination

Strategic management enhances coordination among various functional areas of management and among individual projects.

### 9. Developed Field of Study by Research

Previously, strategic management was developed on the basis on case studies but now, strategic management is no more based on case studies, many methodological problem researches are conducted in the field of strategic management. Today, systematic information is available on strategic management. Thus, at present, studying the concept of strategic management is considered significant.

### Benefits of Strategic Management

Today, majority of the business organisations are opting strategic management. The various benefits which can be derived by the organisations from effective strategic management are listed down below,

1. A part from assisting business organisations in reacting to environment changes, strategic management also assist business organisations in influencing environment and put control on its fate.
2. Strategic management assist business organisations in influencing full dedication and understanding of managers and employers towards company's strategic management. This understanding and dedication of managers and employees make them think creatively and innovatively. This process leads to 'employee empowerment'.

3. Majority of the research studies states that effective strategic management can improve business profits.
4. Strategic management increases employee dedication and participation setting long-run goals of the organisation.
5. Strategic management assist in improving employee productivity levels, minimizing resistance to change and making employees clear about the relationship between performance and reward.
6. Strategic management makes the organisation work in a systematic manner.
7. Strategic management provides an organisation with objective view of management problems.
8. Strategic management reduces the negative impacts of environmental changes and poor conditions.
9. Strategic management allow firms to spend less time and resources on correcting wrong decisions.
10. Strategic management provide basis to make individuals clear about their responsibilities.

### Q3. What is strategic management? Discuss the process and need of strategic management.

OR

**What is strategic management? Describe the process of strategic management.**

(Refer Only Topics: Strategic Management, Process of Strategic Management)

April/May-11, Q2(a)

OR

**Explain the process and need for strategic management.**

(Refer Only Topics: Process of Strategic Management, Need for Strategic Management)

**Answer :** (Model Paper-II, Q6(a) | April/May-14, Q2(a))

### Strategic Management

'Samuel.C. Certo and J. Paul Peter' defined strategic management "As a continuous, interactive, cross-functional process aimed at keeping an organisation as a whole appropriately matched to its environment".

'Schellen Berger and Boseman' defined strategic management "As a continuous process of effectively relating the organisation's objectives and resources to the opportunities in the environment".

### Process of Strategic Management

The steps in the strategic management process includes,

### Step 1 : Identifying/Defining Business Mission, Purpose and Objectives

Identifying or defining an organisation's existing mission, purpose and objectives is the logical starting point as they lay foundation for strategic management.

**UNIT-1 INTRODUCTION TO STRATEGIC MANAGEMENT**

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Every organisation has a mission, purpose and objectives, even if these elements are not consciously designed, written and communicated. These elements relate the organisation with the society and states it has to achieve for itself and to the society.

**Step 2 : Environmental Analysis**

Environmental factors both internal environment and external environment are analysed to,

- (i) Identify changes in the environment.
- (ii) Identify present and future threats and opportunities and
- (iii) Assess critically its own strengths and weaknesses.

Organisational environment encompasses all factors both inside and outside the organisation that can influence the organisation positively and negatively.

Environmental factors may help in building a sustainable competitive advantage. Managers must understand the purpose of environmental analysis and recognize the multiple organisational environments in which they operate.

**Step 3 : Revise Organizational Direction**

A through analysis of organization's environment pinpoints its Strengths, Weaknesses, Opportunities and Threats (SWOT). This can often help management to reaffirm or revise its organisational direction.

**Step 4 : Strategic Alternatives and Choice**

Many alternative strategies are formulated based on possible options and in the light of organisational analysis and environmental appraisal. Alternative strategies will be ranked based on the SWOT analysis. The best strategy out of the alternatives will be chosen.

The steps from identification of business mission, purpose and objectives of alternative strategies and choice can be grouped into the broad step of strategy formulation.

**Step 5 : Strategic Implementation**

Strategic implementation is the most important as well as the most difficult part of the strategic management process. Strategic implementation includes the following steps,

**(i) Long Term Objectives**

Long term objectives are the objectives of the organisation whose results are obtained over a multiple year period. It includes profitability, return on investment, increase in productivity, employee satisfaction, employee development and maintaining good employee relationship.

**(ii) Generic and Grand Strategies**

Many organisations knowingly or unknowingly adopt one or more generic strategies in their organisation. Effective managers create a generic strategy which covers both low cost and differentiated competitive advantage. So, generic strategies has the realistic

options for designing a strategy. Grand strategies describe how the objectives can be achieved. It includes concentration, market development, product development, innovation, diversification etc.

**(iii) Short Term Objectives**

Short term objectives are usually for short period. They are the objectives of the organisation whose results are obtained over a period of one year or less. It includes the marketing activity, ordering of raw materials, its usage, employee turnover, sales objectives etc.

**(iv) Functional Tactics**

Functional tactics are the short term game plans which are used by the organisation to achieve the short term objectives.

**(v) Policies that Empower Action**

Policies are the guidelines or procedure for making a managerial decisions. Policies created by the manager helps in implementing the business strategy. However, to be successful in today's competitive and global environment, decisions should be allowed to be taken at the lower level of the organisation as and when a situation comes.

**(vi) Restructuring, Re-engineering and Refocussing the Organisation**

Re-engineering, restructuring and downsizing are the important elements of the strategic implementation process where the managers rebuild the organization. The structure of the company, its culture, reward system, leadership are changed in the new organisation.

**Step 6 : Strategic Evaluation and Control**

The final step of strategic management process is strategic evaluation and control. It focuses on monitoring and evaluating the strategic management process in order to improve it and ensure that it function properly.

The managers must understand the process of strategic control and the role of strategic audit to perform the task of control successfully.

**Need for Strategic Management**

For answer refer Unit-I, Page No. 1.3, Q.No. 2, Topic: Need for Strategic Management.

**Q4. What are the challenges and consequences of strategic management?****Answer :****Challenges to Strategic Management**

The various challenges faced by strategic management are briefly discussed below,

## **STRATEGIC MANAGEMENT**

**1.6**

### **1. Innovation and Development of Product/Service**

Due to advancements and innovations in technology and changes in customer tastes, preferences, needs and habits, innovation and development of product/service has become essential. Companies which produce/develop innovative products/services are preferred by customers and these companies have distinctive strategic advantage. While other companies working in the same industry will not have strategic advantage which results in competition and raises new challenges for strategic management. Strategic managers are required to possess knowledge about development and innovation of products/service taking place in industry at the time of setting their strategies.

### **2. Issues Concerning Quality**

The contribution made by one of the quality guru W. Edwards Deming to the concept of quality has made powerful influence on the strategic management process of various organisations in 1990s.

Managers engaged in strategic management process are required to possess knowledge about quality movement and developments taking place in it to recognise the importance of quality in modern organisational strategy.

### **3. Social Issues**

As organisations carry out their business in a society and form a part of society, majority of the organisations define their social responsibility as a managerial responsibility to act, preserve and promote interest of both organisation as well as society. Social responsibility of the organisation influence its strategic management process.

Strategic managers must possess detailed knowledge regarding the following aspects,

- ❖ The responsibilities of the organisation towards the society.
- ❖ Which areas of the business will get influenced by this social responsibilities.
- ❖ Technique to carry out social audit to facilitate strategic management process.
- ❖ Strategic advantages which organisation would be getting.

### **4. Technological Advancements and Innovations**

As need give rise to innovation, competition and other factors faster advancements and innovations in technology. Technological advancements and innovations in on firm of an industry becomes challenge to strategic management of other firms of the industry. Frequent advancements and innovations in technology make the existing technology out dated

and becomes a challenge for the strategic management of those companies which are using outdated technology. Strategic managers are required to possess complete knowledge regarding the advancements and innovations taking place in technology at the time of planning strategies.

### **5. Global Issues**

With liberalisation and globalization, business operations have gone beyond the national boundaries. Because of the enhancement in scope and varied activities undertaken by multinational and transactional companies in the nation, the companies which are not engaged in international business also got affected through globalisation.

Strategic managers are required to possess complete knowledge regarding the international factors which may influence their strategic decisions. This knowledge has to be acquired by strategic managers before assessing how their strategic management process takes into consideration international factors.

### **6. Boom and Recession in the Economy**

Both economic boom and economic recession influence the strategic management process. Economic boom provide opportunities whereas economic recession give rise to threats. Organisations must forecast the outcomes of recession and should set strategies to protect itself from the outcomes of recession majority of the organisations/companies were unable to forecast the economic recession of 2008 and other recessions after 2008.

Thus, the above are the six challenges faced by 'Strategic management'.

### **Consequences of Strategic Management**

The strategic decisions results in the following consequences,

1. Mostly, the strategic decisions are complicated in nature. Complexity is one of the defining characteristic feature of strategy and strategic decisions, and is usually being witnessed in organisations with larger geographical scope like that of a multinational firms an organisation dealing with wider range of products or services.
2. Quite a few times, it becomes quite essential to make strategic decisions in cases of uncertainty with respect to future.
3. Strategic decisions usually influences the operational decisions. The relationship between overall strategy and operational aspects of the organisation is quite essential because strategy must be in line with the operational aspects of the organisation and the real strategic advantage can be attained at the operational level.

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1.7

4. Strategic decisions may also demand an integrated approach in order to manage the organisation. Managers need to go beyond the functional and operational boundaries in order to cope up with the strategic problems.
5. Managers must also maintain relationships and networks with people outside the organisation for instance the suppliers, distributors and customers.
6. Usually, strategic decisions include the changes in organisations which are usually difficult due to the heritage of resources and culture.

**Q5. Define the term strategy. Develop strategies for increasing sales of TATA NANO Car.****Answer :** May/June-12, Q2(a)**Strategy**

A strategy acts as a source for attaining the objectives. A strategy is an amalgamated or integrated plan which helps in connecting all the components of an organisation together. A strategy is a comprehensive plan wherein all the components of a plan are consistent with each other and joins together effectively.

Thus, a strategy is a unified, comprehensive and integrated plan which associates the firm's strategic advantages with the environmental challenges.

**Developing Strategies for Increasing Sales of TATA NANO Car**

The Tata Nano Car is one of most popular cars in India. It is the world's most inexpensive/cheapest/easily affordable car and is being launched as a safe and better alternative for two wheelers and scooters. The most powerful driving elements of the Tata Nano Car are as follows,

- (i) The Tata Nano Car's safety function is much better than the present safety regulatory requirement in India. It has successfully cleared out the accidental roll over test and the speed offset impact test. These tests are not regulated in India.
- (ii) It is being termed as the 'people's car' due to its easily affordable price. In fact, it can be regarded as the world's inexpensive car.
- (iii) Strategies for Enhancing Sales

The Tata Automobiles Limited may adopt the following strategies in order to increase the sales.

**1. Launching Awareness Campaign**

Tata Nano Car sales can be enhanced by launching an awareness campaign in order to pass the information to the present and the potential customers with respect to economical cost, and other value added advantages such as, enhanced mileage, easy and convenient driving, better safety level of the car and so on.

**2. Convincing Advertisement**

Another effective strategy for increasing the sales is to initiate persuasive advertisement to convince the two wheeler owners to choose the Tata Nano Car as a better alternative for the two wheeler.

In order to successfully persuade such potential customers, the advertisement may focus upon the following key areas.

**(a) Affordable Cost**

The Tata Nano Car advertising strategy basically needs to focus upon the affordable price of the car. Usually, a bike may range between ₹ 40,000 - ₹ 1,00,000. The customer would be able to purchase the basic Tata Nano Car instead of the bike.

**(b) Element of Safety**

The advertisement may convey the meaning message to the customers that using a car for commuting is much more safer, when compared to two wheelers which are more prone to the accidents.

**3. Targeting the Middle and Low Income Customers**

One of the important strategies of the Tata Nano Car to increase sales could target the middle income and lower middle income customers. Infact, this could be the target customers for the Tata Nano Cars.

The company has designed sales strategies for attracting potential customers whose income lies between 2 lakhs to 4 lakhs per annum.

Therefore, it can be concluded that an eco-friendly, safe and reasonably priced car such as Tata Nano holds greater potentials to increase its market share in the Indian Car Market. It only requires timely and tactful implementation of the sales strategies.

**1.2 TASKS OF STRATEGIC MANAGEMENT****Q6. Discuss the various tasks involved in strategic management.****Answer :**

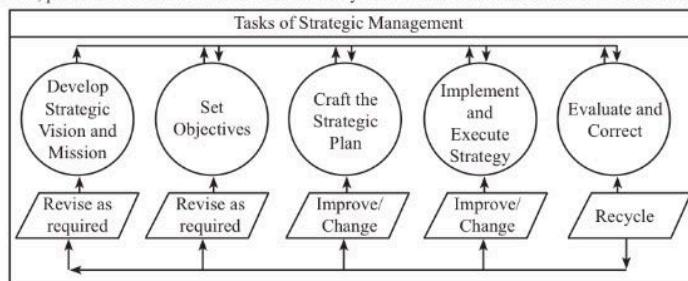
Strategic thinking creates vision of strategic management by identifying the forces which are behind new competition and enables to develop competitive advantage depending on core competencies of organization. It also creates infrastructure to review and redefine strategic directions and enable to identify new developments and opportunities. Both vision and direction provided by strategic thinking must be included in the framework of strategic management.

## **STRATEGIC MANAGEMENT**

### **1.8**

The strategic management process involves number of tasks to be carried out effectively and efficiently by the organization.

- Identify goals organization by creating mission and vision as per the expectations of stake holders.
- Decide objectives which can be achieved even in changing external factors.
- Design and develop a competitive strategy to achieve the mission.
- Effective organizational structure is created and resources are arranged to carry out the strategy effectively.
- At the end, performance is evaluated to take necessary corrective measures in order to achieve the vision.



A step by step explanation of these tasks which are required in making of strategic management are as follows,

#### **1. Mission Statement**

It should be prepared in a manner which continuously guide by providing direction and focus to plans and operation in organization.

#### **2. Vision Statement**

It must describe the hope of organization towards organization and customers.

#### **3. Values Statement**

It explains the priorities of organization to carry out its activities with stakeholders.

#### **4. External Analysis**

It focus on the trends which are effecting the organization such as trends economy, demographic trends etc.

#### **5. Internal Analysis**

It emphasize on major strengths and weaknesses of our organization and also on trends which influence the organization.

#### **6. Strategic Issues**

Organization must identify and address those issues which are immediate and important.

#### **7. Strategic Objectives**

Objective are made to solve the issues and achieve developmental goals. Objectives should be specific, measurable, acceptable to people who are trying to achieve the objectives.

#### **8. Strategies to Reach Objectives**

Identify the approaches to achieve objectives ensure that objectives are close aligned with our mission, vision and values.

#### **9. Staffing Plan**

Consider each strategy to achieve objectives and also consider the requirements to implement the strategies.

#### **10. Action Plan**

Enlist the objectives to be achieved at the time of implementing strategy, time for its completion and by whom it should be completed.

**11. Operating Budget**

Prepare a budget by considering the resources required, expenses and uses of resources.

**12. Strategic Objectives to Performance Objectives**

As soon as strategic objectives are identified, performance objectives of chief executive and other management staff must be updated. Decide the task for each board committees to address strategic objectives.

**13. Implementation of Plan**

A reporting system is designed to know whether strategies and objectives are being achieved or not. It is also necessary to determine the current issues and additional resources to implement the plan.

**14. Communicate the Plan**

Everyone in the organization must be aware of the plan, so make the arrangements to make it possible.

**1.3 FACTORS SHAPING STRATEGY****Q7. Explain the various factors that shape or craft a company's strategy.**

**Answer :**

The strategies plays a pivotal role in the success of an organisation. So, they should be formulated by considering the prevailing competitions and the various factors which are harmful to the organisation.

The most important factors which should be taken into account while crafting the business strategies (apart from the vision-mission statement) are the six important groups which constitutes Porter's business competitions model. These six groups are as follows,

- (i) Direct competition among competing sellers
- (ii) Buyers
- (iii) Suppliers
- (iv) Potential and new entrants
- (v) Different stakeholders group
- (vi) Substitutes.

The careful consideration of these factors while crafting a strategy helps the firm to attain competitive advantage over its competitors for a long time.

Crafting strategy mainly deals with ascertaining whether to pursue follow or not to pursue follow any of the following,

- (i) Focus on a single business or many businesses.
- (ii) Satisfy the needs or demands of large number of customers or to concentrate on a specific market segment.
- (iii) Create a broad or narrow product line.
- (iv) Attain a competitive advantage depending on,
  - (a) Low cost
  - (b) Superior quality product
  - (c) Distinctive organizational abilities
  - (d) Unique or distinct products
  - (e) Terms or conditions of payment
  - (f) Service advantage.

In a broader sense, Thompson and Strickland recognized many factors which must be considered while crafting strategies.

These factors are categorized into internal and external factors which are as follows,

**(i) External Factors**

- ❖ Social, political, regulatory and community factors
- ❖ Competitive situations and industry appealing
- ❖ Company opportunities and threats to its welfare.

## 1.10

## (ii) Internal Factors

- ❖ Resource strengths, capacities and weaknesses
- ❖ Impact of the important executives
- ❖ Shared values and company culture.

The figure given below depicts the factor shaping or crafting the choice of company strategy.

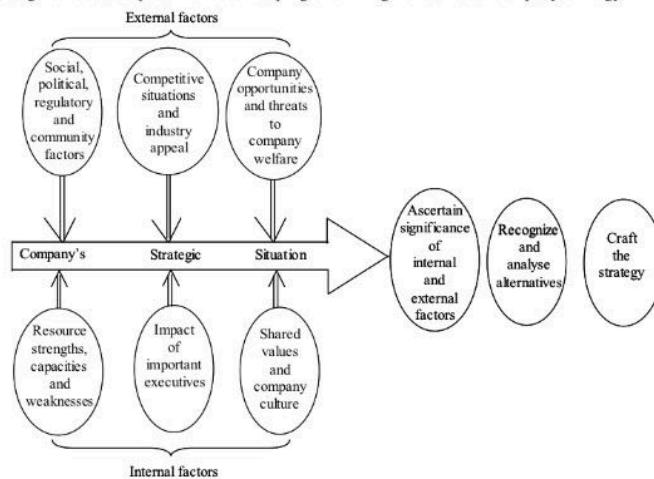


Figure: Factors Crafting the Choice of Company Strategy

## 1.4 DEVELOPING STRATEGIC VISION

## Q8. What is vision? Explain the characteristics and basic elements of a vision.

**Answer :**

**Vision**

Vision is an imaginary view of the future. As such a strategist has to firstly create a vision statement in the strategic management process. The vision statement helps the organizational members to know where the organization is going to be in future. Vision mainly deals with the "what and where" aspects of the company.

Thus, a strategic vision is defined as an imaginary view of future which all the organizational members believe in and is not easily achieved.

**Example**

The vision of Microsoft is to get computer on every desk in every home.

**Characteristics of a Vision**

The following are the characteristics of a vision,

**1. Created by Sharing with All Members**

It has been found from many famous successful stories that a vision can be successful if it is shared all over the organization. Then only the leader or founder can strongly influence others for achieving the specified vision.

**2. Reason for Being**

The vision is a compelling force which extends the future. In 3<sup>rd</sup> century BC, Kwan Jzu quoted that "when planning for a year, sow corn, when planning for a decade plant trees and when planning for life, train and educate people".

**3. Clarity**

Vision provides a clear picture of future. It is considered as a narrative picture of what a company is aiming or wants to be recognized in future.

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**4. Reachable and Achievable**

Few CEOs of different companies believe that targets vision should be precise, motivational and should not be attained easily as they feel that more the targets more employees will be motivated and will force themselves to work hard and reach a new scale of heights every year. However, other people feels that the vision should be within the reach, so that the employees may not get discouraged due to repeated trials which leads to failures.

**5. Brevity/Briefness**

Few CEOs believes that vision should be clear and brief so that it can be read, understood and reminded quickly. It must be small enough to be written even on the back of a business card. However, other individuals believes that brevity of vision should not be done at the cost of clarity. For formulating an alert and active vision, it is very essential to explain the vision clearly as every one in the organisation has the freedom to be aware of the leader's vision and the way it can be attained.

**Basic Elements of a Vision Statement**

Vision is an integration of the following three basic elements,

- (i) An organisation's basic motto behind its survival apart from making money.
- (ii) Its everlasting, consistent core values which elucidates the long-lasting features of an organisation which remains constant even though, it comes across variations in technology, competition, management styles and so on.
- (iii) Immense and courageous ambitions which are attainable for its future.

**Q9. How is vision created or developed? What are the benefits of a vision?**

**Answer :**

**Vision Creation or Development**

Before creating a vision, it is very important for the leader to have complete knowledge about the organization's culture, values and requirements of the employees and other stakeholders. The following guidelines help the leaders to create a compelling vision for the organization.

**1. Including Key Stakeholders**

It is not possible for a single leader to develop a vision alone as he may not have complete knowledge about how to create a vision. So, the support of stakeholders, owners, suppliers, customers, investors, government agencies and other organizational members becomes necessary for a leader while creating a vision and accomplishing major changes in the organization. With the help of key stakeholders, the leaders can refine their ideas into vision.

**2. Recognizing Strategic Objectives**

Objectives are the expected results which an organization wants to achieve. A group discussion about strategic objectives helps the leaders by providing information about the values and ideals. The leaders should firstly help the employees to recognize certain performance objectives which are important to the organizational mission. Then he should understand the importance of various strategic objectives and help the employees to know the reasons for its importance. The shared values and ideals of the employees are regarded as basis for creating a vision.

**3. Identify Useful Elements of the Old System**

Change is considered as one of the important element for the organizational success, as it helps in transforming the organization. Though change is important for organization, there may be certain elements of the current system which can be retained. So, the leader should identify such ideals and values which can be useful for the organization in the future. Sometimes, many traditional values which are neglected can become a basis for creating a new vision, so a leader should take a note of all such useful elements of the system.

**4. Connecting Vision with Core Competencies**

The ability of the organization to carry out its operations extremely well in comparison to its competitors is its core competence. A leader should create a vision which is challenging and believable. A vision which makes too many promises is not possible to attain so, a leader should create a vision which includes new and difficult types of activities which are believable and should connect the vision with the core competencies of the organization.

**5. Assessing and Refining Vision Continuously**

A leader should assess and refine the vision continuously as successful and effective vision develops gradually over the time. If a leader continuously assess the vision, then the progress made towards achieving the vision helps in identifying new possibilities. The leaders should also refine the vision continuously as it helps to continuously search for the ways which make vision more challenging and believable.

Thus, creation of vision is an interactive and circular process which involves everyone in the organization.

#### **Benefits of a Vision**

- Following are the benefits of vision,
- (i) Good visions are motivating and stimulating.
- (ii) Good vision promote long term thinking.
- (iii) Vision aware the company about what it must achieve.
- (iv) Good vision facilitates in the development of general individuality and shared sense of intention.
- (v) Good vision encourages risk taking ability and evaluation.
- (vi) Good visions are competitive, distinct, indigenous and as they are practical in nature they create sense in the market place.
- (vii) Good visions indicates trustworthiness i.e., they are really authentic in nature and can be used for the welfare of the people.

#### **1.5 DEVELOPING MISSION STATEMENT**

**Q10. What is mission statement? Discuss briefly the characteristics and benefits of a mission statement.**

**Answer :**

*Model Paper-I, Q6(b)*

#### **Mission Statement**

A mission was earlier considered as the scope of the business activities a firm pursues. The definition of mission has gradually expanded to represent a concept that embodies the purpose behind the existence of an organization.

Thomson (1997) defines mission as the "essential purpose of the organization, concerning particulars why it is in existence, the nature of the business(es) it is in, and the customers it seeks to serve and satisfy."

Organizations legitimize themselves by performing some function that is valued by society. A mission statement defines the basic reason for the existence of that organization. Such a statement reflects the corporate philosophy, identity, character and image of an organization.

#### **Characteristics of a Mission Statement**

In order to be effective, a mission statement should possess the following seven characteristics,

##### **1. Feasible**

A mission should always aim high but it should not be an impossible statement. It should be realistic and achievable, its followers must find it to be credible.

##### **2. Precise**

A mission statement should not be so narrow as to restrict the organization's activities nor should it be too broad to make itself meaningless.

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##### **3. Clear**

A mission should be clear enough for leading to action. It should not be a high-sounding set of platitudes meant for publicity purposes. Many organizations do adopt such statements but probably they do so for emphasizing their identity and character. For example, Bajaj Auto believes in providing 'value for money, for years'.

##### **4. Motivating**

A mission statement should be motivating for members of the organisation and of society, and they should feel it worthwhile working for such an organization or being its customers. A bank which lays great emphasis on customer service is likely to motivate its employees to serve its customers well and to attract clients.

##### **5. Distinctive**

A mission statement which is indiscriminate is likely to have little impact. If all scooter manufacturers defined their mission in a similar fashion, there would not be much of a difference among them. But one defines it as providing scooters that would provide 'value for money, for years' it will create an important distinction in the public mind.

##### **6. Components of Strategy**

A mission statement, along with the organizational purpose should indicate the major components of the strategy to be adopted. For example, the chief executive of 'Jindal' expressed his intentions by saying that his company "begins its fifth decade of committed entrepreneurship with the promise of a highly diversified company retaining aluminum as its mainline business, but with an active presence in the chemical, electronics and industrial equipment business."

This statement indicates that the company is likely to follow a combination of stability, growth and diversification strategies in the future.

##### **7. Accomplishment of Objectives**

Besides indicating the broad strategies to be adopted, a mission statement should also provide clues regarding the manner in which the objectives are to be accomplished.

##### **Benefits of Mission Statement**

Creating an effective mission statement provides the following benefits,

1. A mission statement gives direction to the organization.
2. Based on the mission, the objectives and strategies of the organization are formulated.
3. Mission statement helps in stimulating positive emotions about the organization.
4. Mission statement helps in resolving the different views of the managers.
5. With the help of mission statement, everyone in the organization will come to know about the purpose and there will be no exception.

**UNIT-1 INTRODUCTION TO STRATEGIC MANAGEMENT****1.13****Q11. Write the importance of mission statement. How do firms formulate mission statement?****Answer :****Importance of a Mission Statement**

Mission statement is important for a company because it describes the objective of a program. The very first step in organizational planning is formulating a mission statement. Formulation of a strategy must always be preceded by formulation of an organizational mission. It is non-mandatory for the company to define a mission. As the process of formulating a mission is time consuming and tedious in nature. But still a business mission is important as it is a statement of attitude, outlook and orientation. It includes the expectations of stakeholders with the performance of the company over the long run. Importance of a mission statement can be addressed with the help of following points,

1. It is the main motive for the establishment of a company.
2. It is considered as economic objective of the company.
3. It consider type of operating philosophy followed by the company in terms of price, quality, company image etc.
4. It states the performance of excellence in terms of its core competencies and competitive advantage.
5. It consider types of customers that can be served by the company and capabilities of a company to satisfy the expectations of stakeholders employees, communities, environment and social issues.

**Formulation of a Mission Statement**

A mission statement can be formulated by using any one of the following three approaches,

**(i) "Ask, Formulate and Establish"**

In this approach formulation of a mission statement can be initiated by framing a questionnaire regarding the succession planning of the organization. Usually the HR generalists, HR development specialists, or management development specialists are given the responsibility for this purpose. Others such as CEO, HR Vice-president or others who are especially appointed as SP and M (Succession Planning and Management) coordinator may function as change champions to lay more attention on the need for change.

**(ii) "Recommend and Listen"**

Secondly, the change champions need to collect the opinions of various decision-makers. Based on the collected information in the form of opinions, the change champions formulate and circulate the proposed business mission.

**(iii) "Facilitate an Interactive Debate"**

Lastly, various decision-makers need to provide their own responses, making use of the proposal as an initial point. In such a course of action, the change champions establish a mission statement.

This approach requires very little efforts from the manager's side in comparison with other approaches. But the staff needs to put-in lot of efforts to collect information, compile it and make recommendations on the basis of it, which would be advantageous to the managers. But the major disadvantage is that the executives do not take part in collecting information, as a result they do not hold any authority over the outcome.

The other two approaches are different from this approach as they have their own pros and cons (follows unique methodology and procedure). Thus, it can be concluded that a company mission is the unique way of setting apart a company from the other companies and identifies the scope of its operations. Therefore, a company mission is a broadly framed but enduring statement of a firm's strategic intent describing the product, market, technical aspects and others in such manner that they reflect the values and importance of the firm's strategic decision makers.

**Q12. What are the elements in developing a mission statement? Write the criteria for a good mission statement.****Answer :****Key Elements for Developing Mission Statement**

Following are the three key elements which are to be taken into consideration by the management while developing a mission statement.

**(i) History of the Organisation**

Any organisation whether it being a manufacturing or service organisation, profit or non-profit, large or small, it will definitely have the history of its objectives, policies, achievements and failures. The important characteristics and the past events must be taken into account while designing and creating a mission statement.

**(ii) Unique Competencies of the Organisation**

Each and every organisation holds certain unique competencies which would help them to have a competitive advantage over its rivals. The organisation have unique competencies with respect to skills, knowledge, expertise, technology etc. The unique competencies of the firm must be used in a proper way and should not be used in unfavorable situations/cases.

**(iii) Organisation's Environment**

Before finalising the mission statement the firms management should identify the different opportunities offered and threats or challenges experienced due to the environment.

For example, rapid development of telecommunication industry, has effected various industries like, postal departments, transport industry, hotel industry and so on.

**1.14**

Hence, the postal department must take into consideration the growth in telecommunication industry before finalising its mission statement.

**Criteria for Good Mission Statement**

The criteria for good mission statement are as follows,

- (i) The outcomes or the results must be clearly defined, and should be measurable with certain particular completion data.
- (ii) A clear explanation as to how the activities of the organisation would achieve results must be given / provided.
- (iii) The firm must maintain stability with the environment in which it is functioning or planning to function.
- (iv) Achievability it may be achievable but difficult with the prevailing or achievable resources.
- (v) Maintaining harmony with the policies, procedures and plans as they are applicable to the organization or business unit.

**1.6 OBJECTIVES****Q13. What are objectives? Write the nature and importance of objectives.**

**Answer :**

**Meaning of Objectives**

Objective refers to an outcome which an organisation aims to achieve in the long-run. It is a final outcome, end point or is something which a person or organization aim at and make efforts to achieve. The probability of success in achieving objectives is more in situations where objectives are set and understood properly.

Objectives make individuals and organisations dedicated towards measurable attainments. It also shows the direction depending upon which activities to be performed are decided for achieving future outcomes.

**Nature of Objectives**

The following points explain the nature of objectives,

- 1. Strategists allot time for the achievement of objectives.
- 2. Strategists must assign weight to each objective by comparing that objective with other objectives at corporate and strategic business unit level.
- 3. At the execution stage of strategic management, clarification is given on measurement attainment of objectives.
- 4. There might be restrictions on the achievement of few objectives.
- 5. Organisations have multiple objectives.
- 6. Objectives cannot be perceived as strategies.

**STRATEGIC MANAGEMENT**

- 7. Official objectives are different from operative objectives. Official objectives are the results which organisation try to achieve on official occasions like public statements to general public. Operative objectives are the results which organisation aims at achieving.
- 8. As there are multiple objectives in the short- run, usually few objectives are given more priority or assigned more weight than compared to other objectives.

**Importance/Significance of Objectives**

The following points highlight on the importance/significance of objectives,

- 1. **Coordinate Decisions and Decision Makers**  
The objectives set in an organisation put restriction on the employees activities and make them work towards the achievement of objectives. Objectives coordinate decision-making process through various employees.

**2. Serve as Standards for Measuring Organisational Performance**

Objectives states the final goals and targets which organisation is required to achieve. These targets and goals serve as standards for measuring organisational performance.

- 3. **Demonstrate the Changes in the Environment**  
Objectives are changed as per the changes taking place in the internal and external environment of the organisation.

**4. Define the Organisation to the Stakeholders in the Environment**

Customers, creditors, government and society come under the stakeholders prevailing in the environment. Objectives define the organisation to these stakeholders.

**5. Assist in Setting Strategies**

Organisation's mission statement is converted into objectives and these objectives are taken as basis for setting strategies.

**Q14. What are the guidelines for formulating objectives?**

**Answer :**

The following guidelines should be considered at the time of setting objectives,

**1. Set Objectives Based on Organisation's Overall Objectives**

The objectives of various departments of the organisation such as marketing, production, finance, human resource and research and development should be set based on the organisation's overall objectives and objectives of each unit must be set taking departmental objectives as basis. Thus, objectives must be inter-related across the organisation.

**UNIT-1 INTRODUCTION TO STRATEGIC MANAGEMENT**

1.15

**2. Objectives Must be Attainable**

Objectives must be challenging and at the same time they must be attainable. Objectives which can be attained in the long run should not be set for short run. Objectives must be specified in simple terms which can be remembered easily.

**3. Should Avoid Setting too many Objectives for One Single Manager**

One manager should not be given too many objective this may leads to confusion and negligence. If too many objectives are given to a person, there are the chances where person focus more on less important objectives and focus less on more essential objectives.

**4. The Various Objectives of the Organisation Should be in Balance with One Another**

The various objectives of the organisation should not overemphasise on one situation. For instance, more emphasis may be laid on objective of customer service than compared to objective of profit enhancement. In the same way, equal focus should be laid on objective of management development and objective of profit and growth of the entire organisation.

**5. Objectives Must Give Some Amount of Challenge for Attaining Them**

Usually, majority of the people make efforts towards the attainment of objectives when that objectives pose some amount of challenge. Challenge motivates people to work. Thus, objectives must give some amount of challenge for the attainment of objectives.

**6. Objectives Set in the Organisation Must be up-to-date and Innovative**

Manager should review and update the objectives at regular intervals on the basis of changes taking place in the external environment and organizational priorities. Apart from this, manager must welcome the innovative ideas from employees and consider these innovative ideas while setting objectives.

**7. Objectives Must be Given Ranks as Per Their Significance**

In case of more than two objectives, ranking method must be followed. Objectives are allotted with ranks as per their significance. Ranks guide the manager and protect him from getting confused. Manager begin with attaining the objectives with first rank, after achieving first rank objectives, he will move to second rank objectives then third rank objectives and so on.

**8. Responsible People Should be Allowed to Take Part in Setting Objective**

The manager should identify the people who are responsible of carrying out/executing the objectives and allow them to take part in the objective setting exercise. People who are at the execution level possesses good knowledge about the activities. They have good understanding of what is attainable. These people must be motivated to take part in the process of objective setting. Involvement of people in setting objectives, makes them more dedicated towards the achievement of objectives.

**Q15. Explain the approaches available in developing objectives with merits and demerits.**

**Answer :** (Model Paper-III, Q6(a) | April-15, Q2(b))

There are two approaches available for setting and developing the objectives of an organisation. They are,

**Top Down Approach**

In this type of approach the general objectives of an organization are set, taking into consideration the purpose of the business and what an organization would like to be in future.

At the next level the overall objectives as specified by top management are more specifically defined and are divided into divisional objectives, departmental objectives and individual objectives.

The managers at this level will be responsible for translating the objectives into practice. So the managers are given freedom and responsibility in the formation of objectives for divisions, departments and individuals. After the decision of the managers on the objectives, the lower level of the hierarchy strive to achieve these objectives with the help of strategies and policies that are set along the process of formulation of objectives.



Figure: Top Down Approach

**1.16****STRATEGIC MANAGEMENT****Merits of Top-down Approach**

The top-down approach has the following merits,

1. Top-down approach helps the management in bringing connectivity between the strategies and objectives of various departments of the same organisation.
2. It helps in bringing together all the efforts of employees to move the organisation towards the selected strategic course of action.

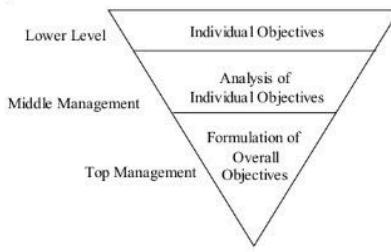
**Demerits of Top-down Approach**

Some of the demerits of top-down approach are as follows,

1. The objectives set by the top-level management are not flexible in nature. They cannot be changed quickly and easily.
2. Employees are not at all allowed to participate in the process of setting objectives.
3. The objectives set by top-level management are highly ambitious and impractical.

**Bottom Up Approach**

This approach is the reverse of top-down approach. In this approach the objectives are formulated by the lower level taking into consideration their individual objectives which are presented to their higher level managers, departmental supervisors and divisional managers. The managers integrate all the individual objective and formulate them as an overall objectives of the organization. This approach is based on the assumption that subordinates at lower levels will be motivated to accomplish organizational goals as the objectives formulated are based on their initiation.



**Figure: Bottom Up Approach**

**Merits of Bottom-up Approach**

Bottom-up approach has the following merits,

1. The objectives set through bottom-up approach are more realistic and acceptable in the organisation.
2. In this approach employees are allowed to participate in the process of setting the objectives. This opportunity motivates them to put extra efforts in accomplishing the stated objectives.

**Demerits of Bottom-up Approach**

Some of the demerits of bottom-up approach are as follows,

1. There may be a lack of cohesion between the set objectives and organisation's mission.
2. Lack of direction and focus is found in organisations adopting bottom-up approach.
3. As the objectives are formulated by the employees under bottom-up, they may not be challenging and ambitious.

**1.7 CRAFTING AND EXECUTING STRATEGY****Q16. What is strategy? Explain the need and criteria for effective strategy.****Answer :****Strategy**

A strategy acts as a source for attaining the objectives. A strategy is an amalgamated or integrated plan which helps in connecting all the components of an organisation together. A strategy is a comprehensive plan wherein all the components of a plan are consistent with each other and joins together effectively.

Thus, a strategy is a unified, comprehensive and integrated plan which associates the firm's strategic advantages with the environmental challenges.

**Need for Strategy**

All the organizations formulate their strategies and the formulation of strategies is required for the following reasons,

- (i) To frame the rules which directs the employees in identifying new opportunities both within and outside the firm.
- (ii) For taking qualitative project decisions.
- (iii) To acquire and enhance internal ability for predicting the change.
- (iv) To make sure that the resource allocation procedure is carried out productively by the firm.
- (v) To setup measures which helps in determining whether a specific opportunity is rare or unusual or whether a more preferable one should be created in future or not.
- (vi) To make effective utilization of money, time and expert knowledge of an executive.

- (vii) To use the delay principle which delays the obligation till an opportunity is available.
- (viii) To recognize, create and make use of potential opportunities.

#### **Criteria for Effective Strategy**

Eventhough, every situation is different or distinct, there is a common criteria which elucidates an effective strategy. The criteria for effective strategy are as follows,

##### **1. Clear and Decisive Objectives**

It is not necessary for a firm to maintain all the goals in the written format or to explain them consecutively accurate.

But, they should be vividly understood, decisive and achievable, so that all the strategists can drive their efforts towards such type of goals.

##### **2. Concentration**

The strategy centralizes the superior power at the place and time which are likely to settle an issue quickly. The strategy should clearly outline the factors which makes the organisation superior in power, and excellent in crucial dimensions in connection with its competitors. The organisation having unique capabilities can attain higher success with small amount of resources.

##### **3. Surprise**

To counterattack the unready rivals at an unpredictable time, the strategy should deploy intelligences speed and concealment. Hence, surprise and correct time are very crucial for a strategy.

##### **4. Coordinated and Committed Leadership**

While choosing the leaders, it is very essential to match their own interest and values with the needs of their roles. The strategy must offer a dependable, committed and coordinating leadership for its significant goals. Hence, commitment and the more acceptance is the main prerequisite of a strategy.

##### **5. Security**

It is very essential for the firm to secure or maintain the resources needed and to administer all the functional units of the organisation and a proficient intelligence system for avoiding the impact of the surprises given by the competitors.

##### **6. Flexibility**

A strategy should intentionally include resources, shock absorbing devices or buffers and flexibility dimensions. The use of reserved abilities planned operations and repositioning facilitates helps the firm to utilize minimum resources by placing the rivals at a disadvantageous position.

##### **7. Maintaining the Initiative**

The strategy protects the freedom of action and increases commitment. It sets the speed and ascertains the course of events instead of reacting to them.

##### **Q17. Why are crafting and executing strategy important?**

###### **Answer :**

The following two reasons explains why crafting and executing strategy are regarded as the most important managerial activities.

1. The managers have a strong need to proactively shape or craft the way in which the business of the company will be carried out. If the strategy is explicit, then it acts as a prescription to the management for carrying out the business. It also acts as a roadmap for achieving competitive advantage and a gameplan for attracting the customers and attaining the performance targets.

If the strategy is powerful, then it helps the firm to move from a lagging position to a leading position and to rule the market. For attaining success in the market the strategy of the firm should be perfectly designed, opportunistic and should help the firm to overcome the innovations of the competitors by taking the advantage of it and securing a superior powerful position in the market.

But if a company follows the strategies which are copied from others or follows the strategies which are based on the fearful actions then it will not be able to attain the superior position in the market.

Highly performing organisations produces their products based on their clever, intelligent, creative and proactive strategy which makes it unique from the competitors and helps them in attaining the competitive advantage.

Few companies also attains superior position in the market with their luck and this good luck enables them to enter the right market at right time with the right product.

2. The company which gives top priority to the strategy will be the leading ruler of the market when compared to the company which considers strategy as insignificant and gives least priority to it.

The quality of managerial strategy formulation and strategy execution has a positive influence on revenue growth, earnings and return on investment.

The company whose direction is not clear and whose performance targets are indefinite and ill defined have a defective or confusing strategy. The company having such type of strategy will be ineffective, its business will be at long term risk and its management will be extremely lacking.

On the other hand, when the firm crafts and executes a winning strategy, then the management can completely focus on the functioning of the business and can have higher chances of integrating the initiatives and tasks of various divisions, departments, managers and workgroups into an organised group effort. If the company deploys all its resources for implementing the selected strategy and for attaining the targeted performance then it can rule the market.

Thus, crafting and executing strategy are the most important managerial functions on which the success or failure of the company rely on. Effective strategy and effective strategy execution are the most reliable indications of effective management.

### 1.8 CONCEPT OF STRATEGIC INTENT

**Q18. What is strategic intent? Explain the hierarchy of strategic intent.**

**Answer :**

#### Strategic Intent

Hitt et al defined strategic intent as "the leveraging of a firm's internal resources, capabilities and core competencies to accomplish the firm's vision, mission and objectives in a competitive environment". It basically occurs when all the employees and levels of a firm aims towards attaining the specific and important performance target. Strategic intent deals with wining the competitive battles and acquiring leadership position by making optimum use of organisational resources. Intent can be developed in the form of broad vision (or) mission statement (or) more emphasised direction involving certain objectives and goals. It seeks to develop the parameters which mould the values, motives and actions of the individuals in the organisation.

#### Hierarchy of Strategic Intent

The hierarchy of strategic intent involves the following elements,

1. A broad vision of the organisation.
2. Mission of a organisation.
3. Strategic objectives and specific goals which needs to be attained persistently.
4. The plans which are formulated for achieving the aims of the management in a definite manner.



**Figure: The Strategic Ends by an Organisation can be Organised in a Hierarchy of Strategic Intent**

The different elements of the hierarchy describes the dedicated intentions pursued nobles ideals and clear ideas which integrates the energy and forces that are spread all over the organisation. Strategic intent is effectively demonstrated when the people strongly believe in their products and industry and emphasizes on their firms capability to perform more effectively than their competitors. The different elements of strategic intent are starting points for any formal planning process, but they also provide a direction which is required for ensuring that effective behaviour leads to overall progress.

#### 1. Vision

Vision is an imaginary view of the future. As such a strategist has to firstly create a vision statement in the strategic management process. The vision statement helps the organizational members to know where the organization is going to be in future. Vision mainly deals with the "what and where" aspects of the company.

Thus, a strategic vision is defined as an imaginary view of future which all the organizational members believe in and is not easily achieved.

**Example:** The vision of Microsoft is to get computer on every desk in every home.

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## 2. Mission

A mission was earlier considered as the scope of the business activities a firm pursues. The definition of mission has gradually expanded to represent a concept that embodies the purpose behind the existence of an organization.

Thomson (1997) defines mission as the “essential purpose of the organization, concerning particulars why it is in existence, the nature of the business(es) it is in, and the customers it seeks to serve and satisfy.

Organizations legitimize themselves by performing some function that is valued by society. A mission statement defines the basic reason for the existence of that organization. Such a statement reflects the corporate philosophy, identity, character and image of an organization.

## 3. Objective

Objective refers to an outcome which an organisation aims to achieve in the long-run. It is a final outcome, end point or is something which a person or organization aim at and make efforts to achieve. The probability of success in achieving objectives is more in situations where objectives are set and understood properly.

Objectives make individuals and organisations dedicated towards measurable attainments. It also shows the direction depending upon which activities to be performed are decided for achieving future outcomes. Goals form a part of objectives which are specified in quantitative terms.

## 4. Plans

Planning is helpful in creating both the goals and plans. If the goals are considered as the destination, then the plan is regarded as the way to reach that destination. In short, a plan is the result of the planning process which specifies the structure within which the managerial efforts are made functions for achieving the set goals. It shows the direction for achieving the goals.

Plan includes the schedules of various activities with their time, resources and other requisites for accomplishing the goals. The type of plan depends upon its usage. The different types of plans are,

### (i) Hierarchical Plans

Every organization has three levels i.e., institutional, administrative and technical. Hierarchical plans are basically of three types. All these plans are interdependent in nature.

- (a) Strategic plan
- (b) Administrative plan and
- (c) Operational plan.

### (ii) Frequency-of-use Plans

Certain plans are used once, while few other plans are used again and again. According to its usage frequency they are two plans,

- (i) Standing plans and
- (ii) Single-use plans.

### (iii) Time-frame Plans

The time-frame plans addresses the future plans of the organisation. Time-frame plans are usually of three types short, medium and long term. The duration and nature of these plans differ from one industry to another industry. Long-term plans are less specific than the short-term plans.

Long-term plans are less formal directional brief and highly flexible in nature unlike the short-term plan.

### (iv) Organisational Scope Plans

Plans differ in their scope. Few plans focuses upon the entire/whole organisation while few others focuses upon a particular issue or subject only.

### (v) Contingency Plan

Contingency plans are developed in order to cope up with uncertain situations that takes place in case when the assumptions made process to be wrong/incorrect. The contingent plans are developed for the alternative courses of actions to be followed in case if the assumptions goes wrong.

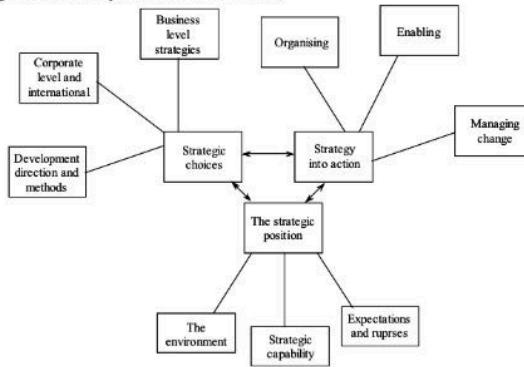
### 1.9 A MODEL OF ELEMENTS OF STRATEGIC MANAGEMENT – DEVELOPING STRATEGIC MODEL

**Q19. Discuss a model of elements in strategic management system.**

**Answer :**

(Model Paper-II, Q6(b) | May-17, Q2(b))

Strategic management deals with the complexities occurring from uncertain and non-routine conditions that arises all over the organisation instead of operation-specific implications. The scope of strategic management is wider than that of any one specific area of operational management. As strategic management is complicated it is very essential to make the decisions and judgements on the basis of the conceptualisation of the complex issues. Strategic management generally involves comprehending the strategic position of an organisation, strategic choices for the future and transforming strategy into action. The figure given below depicts all these elements,



**Figure: A Model of the Elements of Strategic Management**

The early training and experience of the managers is concerned with taking appropriate measures (or) comprehensive planning (or) analysis. The different elements of strategic management are interconnected and provides information to each other. The model of the elements of strategic management are explained below,

**1. Strategic Position**

For answer refer Unit-I, Page No. 1.20, Q.No. 20.

**2. Strategic Choices**

For answer refer Unit-I, Page No. 1.21, Q.No. 21.

**3. Strategy into Action**

For answer refer Unit-I, Page No. 1.22, Q.No. 23.

#### 1.9.1 Strategy Position

**Q20. Discuss about strategic position.**

**Answer :**

The strategic position deals with recognising the affect of external environment, strategic capability and the expectations and influence of stakeholders on strategy. The different issues which emerges from these aspects plays a key role in the formulation of future strategies. Generally in the strategic position includes the following aspects,

**1. Environment**

The organisations carry out its operations in the complex political, economic, social, technological, environmental and legal environment. This environment changes rapidly and is very complicated for certain organisation. The organisations can determine the impact of environment on the organisation by understanding the historical and environmental impact and the estimated or potential changes in the environmental variables. Some of these variables results in opportunities and some of them acts as a threat on the organisation. The main issue underlying this concept is the difficulty in determining the understanding each variable.

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**2. Strategic Capability**

The adequacy and suitability of the resources and capabilities of an organisation for its survival and growth is known as strategic capability. The main purpose of strategic capability is to develop a view of internal influences and constraints on strategic choices for the future. Strategic capability is an integration of resources and high levels of core competencies is specific activities that offer benefits which are difficult for the competitors to copy. The strategic capability includes three key elements which are as follows,

- (i) Resources and competencies
- (ii) Threshold capabilities
- (iii) Unique resources and core competencies.

**3. Expectation and Purposes**

The different expectations of different stakeholders influences the purposes of an organisation. The fundamental expectations deals with whom should the organisation provide its services and the way in which the directions and purposes of an organisation should be determined. The views of stakeholders wholly rely on the group which has the highest power. While dealing with the expectations and purposes of an organisation the issue of corporate governance is also significant as it defines whom the organisation is going to provide service and how the purposes and expectations of the organisation should be determined. Sometimes, the organisational strategy is also affected by the cultural influences from within the organisation and from the environment around it. All these insights gives rise to ethical issues about the activities which the managers and organisations perform and the reason for performing it.

**1.9.2 Strategy Choices****Q21. Write in detail about strategic choices.****Answer :**

Strategic choices give more importance to the decisions relating to the future of the organisation and the manner in which it needs to respond to other pressures and influences. It deals with comprehending the fundamental bases for future strategy at business level as well as corporate levels and the different choices for developing a strategy. There are strategic choices with respect to the way in which the organisation tries to compete at the business level. But this criteria needs an ascertainment of bases of competitive advantage by understanding the markete customer, and the strategic capability of the organisation. The organisations mostly have several business units which compete in various markets wherein the customers or clients have distinct needs and requires different products or services. For understanding the business-level strategy it is very essential to recognise the SBUs in an organisation. The key elements of business-level strategies are base competition (i.e., price, differentiation, hybrid and focus), achieving competitive advantages and game (i.e., sustainability, hypercompetition, collaboration theory) and detailed choices (involving directions and methods).

The corporate-level strategy which is presented at the highest-level in an organisation generally, focuses on the scope of the organisational strategies. It also deals with the relationship existing between the different parts of the business and way in which the corporate parent adds value to these different parts. The corporate strategy consists of the decisions relating to the portfolio of products and/or businesses and the spread of markets. So for many organisations, the international strategies serve as an important part of corporate-level strategy.

Corporate strategy involves two central concerns. The first central concern is the strategic decisions relating to the scope of an organisation which includes products diversity, international diversity, corporate parenting roles and managing the portfolio. The second central concern of corporate level strategy is the way in which the value added at the corporate level is different from business level in organisations.

The survival and success of the organisation depends on its competency to respond to the competing pressures from the business environment, strategic capability and cultural and political conditions. These three pressures develop motives behind attaining these strategies. These motives are based on the environment, capability and expectations. Direction is persuaded as a strategic alternative available to an organisation with respect to the products and market coverage by considering the strategic capability of the organisation and the expectations of stakeholders.

**1.22****STRATEGIC MANAGEMENT**

**Q22. Examine the inter relationship between strategic choices and strategic position.**

**Answer :**

(Model Paper-III, Q6(b) | May/June-16, Q2(b))

**Strategic Choices**

Strategic choices give more importance to the decisions relating to the future of the organisation and the manner in which it needs to respond to other pressures and influences. It deals with comprehending the fundamental bases for future strategy at business level as well as corporate levels and the different choices for developing a strategy. There are strategic choices with respect to the way in which the organisation tries to compete at the business level. But this criteria needs an ascertainment of bases of competitive advantage by understanding the market customer, and the strategic capability of the organisation. The organisations mostly have several business units which compete in various markets wherein the customers or clients have distinct needs and require different products or services. For understanding the business-level strategy it is very essential to recognise the SBUs in an organisation. The key elements of business-level strategies are base competition (i.e., price, differentiation, hybrid and focus), achieving competitive advantages and game (i.e., sustainability, hypercompetition, collaboration theory) and detailed choices (involving directions and methods).

**Strategic Position**

The strategic position deals with recognising the effect of external environment, strategic capability and the expectations and influence of stakeholders on strategy. The different issues which emerge from these aspects play a key role in the formulation of future strategies.

**Relation Between Strategic Choice and Strategic Position**

There exists a direct relationship between strategic choice and strategic position. The strategic position deals with recognizing the effects of external environment, strategic capabilities and influence of stakeholders on the strategy. On the other hand, strategic choice deals with understanding the fundamental bases for future strategy of the organization at the corporate level and business level. It provides a pathway to understand,

- (i) How the future strategy would be organized?
- (ii) How the strategic change would be managed?
- (iii) What are the enablers which would help bring the planned strategy into action?

Thus, we can understand that strategic choices and strategic position are both facilitators which help into turning the planned future strategy into action.

The complimentary relationship between strategic choice and strategic position can be illustrated through the following figure.



Figure: Inter Relationship between Strategic Choice and Strategic Position

**1.9.3 Strategy in Action**

**Q23. What is strategy to in action? Explain the issues involved in strategy into action.**

**Answer :**

**Strategy into Action**

Strategy into action focuses on assuring that the strategies are practically operating/working. The success of the strategy depends on different roles played by different people.

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**Issues in Strategy into Action**

The three important issues involved in strategy into action are as follows,

- (a) Structuring
- (b) Enabling and
- (c) Managing strategy.

**(a) Structuring**

The process of structuring helps the organisation to attain effective performance. Structuring generally involves three key issues i.e., organisational structures, processes and relationships. The managers presents their organisations by drawing an organisation chart and mapping out its formal structures. These structural chart outlines the different levels and roles in an organisation. The seven basic organisational structural types are functional, multi divisional, holding, matrix, transnational, team and project. However, within every structure the formal and informal organisational processes helps the organisation to carry out its operations effectively. The control processes are divided into two ways. Firstly, they focus either on control over inputs (or) control over outputs. An input control processes deals with the resources which are used in the strategy. Particularly the financial resources and human commitment, while output control processes emphasize on assuring satisfactory outcomes. The second subdivision is made between direct and indirect controls. Direct controls deals with close supervision (or) monitoring, while indirect controls develops certain conditions wherein the desired behaviors are attained semi-automatically. It is also important for the organisations to build and maintain internal and external relationships for responding to any uncertain environment.

**(b) Enabling**

Enabling success deals with the two way relationship between the overall business strategies and the strategies in different resource areas like people, information, finance and technology. The reverse/ converse also plays a key role in the success specifically the degree to which the new strategies are formulated on a specific resource and competence strengths of an organisation. The knowledge and experience of individuals act as the important factors enabling the success of strategies. Presently, the knowledge creation and information management are key issues with which the managers are enhancing their competitiveness. The strategic success depends on finance and the manner in which is managed. The three key issues of managing finance are managing for value, finding strategies and financial expectations. The technological development can take many different forms which provide benefits to organisations in specific ways. A technological path recognises the key factors that are affecting the technological developments.

**(c) Managing Strategy**

The management of strategy deals with change. It basically deals with the management tasks and process which are used in different changing strategies. For managing the strategy it is very essential for a firm to understand the way in which the organisation can affect the approach to change and different roles for people in managing change. It is also very essential to consider different styles which can be used for managing change and the evers through which change can be influenced. The four important elements in managing strategic change are diagnosing the change situation, change management, levers for change and pitfalls of strategic change.

**SHORT QUESTIONS AND ANSWERS**

**Q1. What do you understand by strategic management and strategic intent?**

**OR**

**What is strategic management?**

(Model Paper-I, Q1 | May-17, Q1(a))

(Refer Only Topic: Strategic Management)

**OR**

**Strategic Intent**

(Refer Only Topic: Strategic Intent)

**Answer :**

May-13, Q1(b)

**Strategic Management**

Strategic management refers to the process which helps the organisation in identifying the ways to achieve corporate objectives and also identifies the strategies which must be followed through which these objectives can be achieved.

According to Schellen berger and Boseman, "Strategic management is a continuous process of effectively relating the organisation objectives and resources to the opportunities in the environment".

Perace and Robims on defined "Strategic management is a set of decisions and actions resulting in formulation and implementation of strategies designed to achieve the objectives of an organisation."

**Strategic Intent**

'Strategic Intent' refers to the process of leveraging the internal resources, capabilities and core competencies of the firm in order to achieve vision, mission and objectives of the firm in a competitive environment. Strategic intent basically deals with winning the competitive battles and acquiring leadership position with the help of effective utilisation of organisational resources. When all usually, strategic intent would be successful only the employees and levels of a firm are engaged in continuing a specific and important performance target. Strategic intent basically ties to develop the parameters which shapes the values, motives and actions of people all round the organisation.

**Q2. Write a note on mission statement and objectives.**

Model Paper-II, Q4

**OR**

**What is mission statement?**

May-17, Q1(a)

(Refer Only Topic: Mission Statement)

**OR**

**Objectives**

(Refer Only Topic: Objectives)

**Answer :**

May-13, Q1(a)

**Mission Statement**

The mission statement of an organisation explains the aim of the organisation and reason for its existence. It mainly deals with the organisation's core values and core purposes. Mission is usually concerned with the "what" aspect of the organisation. A mission statement is defined as "the long lasting statement of purpose which differentiates one company from the other similar type of a company".

Mission statement consists of the core value which summarizes the guiding principles and ethical standards on the basis of which the organization would perform its business activities.

**Objectives**

Objectives refers to an outcome which an organisation aims at achieving in the long-run. Objective is a final outcome or something which a person aims at and make efforts to achieve. In other words, objective is an expected outcome/result, organisational efforts are made towards the achievement of this outcome/result. The probability of success in achieving objectives is more in situations where objectives are set and understood properly. Objectives make individuals and organisations dedicated towards measurable attainments. They state the activities to be undertaken presently in order to achieve the future outcome.

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**UNIT-1 INTRODUCTION TO STRATEGIC MANAGEMENT**

1.25

**Q3. What are strategic positions and strategy into actions.****OR****What is strategic position?**

(Refer Only Topic: Strategic Position)

(Model Paper-III, Q2 | May-17, Q1(c))

**OR****What is meant by strategic positions?**

(Refer Only Topic: Strategic Position)

**Answer :**

May/June-16, Q1(a)

**Strategic Position**

The strategic position deals with recognising the affect of external environment, strategic capability and the expectations and influence of stakeholders on strategy. The different issues which emerges from these aspects plays a key role in the formulation of future strategies. Generally in the strategic position includes the following aspects,

1. Environment
2. Strategic capability
3. Expectation and purposes.

**Strategy into Action**

Strategy into action focuses on assuring that the strategies are practically operating/working. The success of the strategy depends on different roles played by different people. The three important issues involved in strategy into action are as follows,

- (a) Structuring
- (b) Enabling and
- (c) Managing strategy.

**Q4. Define vision statement with two examples.****Answer :**

April-15, Q1(b)

**Vision**

Vision is an imaginary view of the future. So, the strategist has to firstly create a vision statement in the strategic management process. The vision statement helps the organizational members to know where the organization is going to be in future. Vision mainly deals with the "what and where" aspects of the company.

All the individuals should participate while creating a vision, so that it can be accepted by everyone in the organization.

A strategic vision is defined as an imaginary view of future which all the organizational members believe in and is not easily achieved. Strategic vision provides an overview of an organization in the coming future.

**Examples****(i) Microsoft**

The vision of Microsoft is to get computer on every desk in every home.

**(ii) American Express**

The vision of American Express is to become the world's most respected service brand.

**Q5. What are the benefits of creating vision and mission.****Answer :****Benefits of Creating a Vision**

Creating a strategic vision provides the following benefits,

1. Vision help the individuals to differentiate between what is good or bad and facilitates effective decision making.
2. Vision inspires and motivates the current and future employees, so that they feel connected with the organization.
3. Effective vision gives meaning to the work and helps in creating a common identity.

**STRATEGIC MANAGEMENT****1.26**

4. Vision is broad in nature and connects the present with the past by effectively changing the old methods.
5. Vision creates standards of excellence.
6. Effective vision promotes risk taking and experimentation.

**Benefits of Mission**

Creating an effective mission statement provides the following benefits,

1. A mission statement gives direction to the organization.
2. Based on the mission, the objectives and strategies of the organization are formulated.
3. Mission statement helps in stimulating positive emotions about the organization.
4. Mission statement helps in resolving the different views of the managers.
5. With the help of mission statement, everyone in the organization will come to know about the purpose and there will be no exception.

**Q6. Distinguish between vision and mission.****Answer :***May/June-12, Q1(b)*

Following are the differences between vision and mission.

<b>Basis</b>	<b>Vision</b>	<b>Mission</b>
1. Definition	Vision is an imaginary view of the future.	Mission is a statement which exhibits the purpose behind the existence of an organization.
2. Application	It is applied in area of communication.	It is applied in area of planning.
3. Length	It is a long statement.	It is a brief statement.
4. Focus	The focus of vision is narrow.	The focus of mission is broad.
5. Purpose	Its purpose is to inspire.	Its purpose is to inform.
6. Development	Development of vision is like an art.	Development of mission is like science.

**INTERNAL ASSESSMENT****I. Multiple Choice**

1. Factors which must be considered while crafting strategies are \_\_\_\_\_, [ ]  
(a) External factors  
(b) Internal factors  
(c) Both (a) and (b)  
(d) None of the above
2. The criteria for effective strategy are, [ ]  
(a) Clear and decisive objectives  
(b) Flexibility  
(c) Concentration  
(d) All the above
3. Clarity, brevity reachable and achievable are features of, [ ]  
(a) Mission  
(b) Vision  
(c) Objectives  
(d) Goals
4. Environment, strategic capability and expectations and purposes are the issues involved in, [ ]  
(a) Strategy into action  
(b) Strategic choices  
(c) Strategic position  
(d) None of the above
5. Feasible, precise, clear, motivating are features of, [ ]  
(a) Vision  
(b) Mission  
(c) Objective  
(d) None of the above
6. Formulation of mission statement includes, [ ]  
(a) Ask, formulate and establish  
(b) Facilitate an interactive debate  
(c) Recommend and listen  
(d) All the above

7. The main aspects of corporate strategy are, [ ]  
(a) Formulation of strategy  
(b) Strategy implementation  
(c) Objectives of strategy  
(d) Both (a) and (b)

8. A plan which lays out the company's future direction, performance targets and strategy is, [ ]  
(a) Organisational plan  
(b) Strategic plan  
(c) Entrepreneur plan  
(d) National plan

9. This phase of the strategy management process which acts as the trigger point for deciding whether to continue or change the company's vision, objectives, strategy, is, [ ]  
(a) Setting of objectives  
(b) Crafting a strategy  
(c) Evaluating performance  
(d) Implementing strategy

10. \_\_\_\_\_ provides vision for strategic management. [ ]  
(a) Strategic thinking  
(b) Strategic plan  
(c) Functional-area strategies  
(d) Corporate strategy

**II. Fill in the Blanks**

1. \_\_\_\_\_ is a set of decisions and actions which resulting in the formulation and implementation of strategies which are designed to achieve the goals.
2. The firmness of an organisation to achieve long term objectives is known as \_\_\_\_\_.
3. A \_\_\_\_\_ is a set of decision-making rules for guiding the organizational behaviour.
4. The CEO or the manager acts as a \_\_\_\_\_ and \_\_\_\_\_ of strategy making.
5. \_\_\_\_\_ is defined as a "description of something (an organization, corporate culture, a business, a technology an activity) in the future".
6. An enduring statements of purpose that differentiates business from other similar firms is known as \_\_\_\_\_.
7. \_\_\_\_\_ clearly explains, what a company expects from its workers and what they can expect form the company.
8. \_\_\_\_\_ deals with assuring that strategies are working in practice.
9. The strategic capability of the organisation comprises \_\_\_\_\_ and \_\_\_\_\_.
10. The issues involved in strategy into action are \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_.

**KEY****I. Multiple Choice**

1. ( c )
2. ( d )
3. ( b )
4. ( c )
5. ( b )
6. ( d )
7. ( d )
8. ( b )
9. ( c )
10. ( a )

**II. Fill in the Blanks**

1. Strategic management
2. Strategic intent
3. Strategy
4. Visionary and chief designer
5. Vision
6. Mission statement
7. Policies
8. Strategy into action
9. Resources and competence
10. Structuring, Enabling and Managing change.

**III. Very Short Questions and Answers****Q1. Define Strategy.****Answer :**

A strategy acts as a source for attaining the objectives. A strategy is an amalgamated or integrated plan which helps in connecting all the components of an organisation together.

**Q2. What is strategic management process?****Answer :**

“Strategic management process” deals with a sequence of steps by which the firm’s management transforms its mission, objectives and goals into an efficient strategy.

**Q3. What do you mean by strategy evaluation?****Answer :**

A strategy evaluation is regarded as one of the most important tool used by the strategic leaders for determining the effectiveness of the organization’s strategy towards the achievement of its objectives.

**Q4. What are strategic choices?****Answer :**

Strategic choices give more importance to the decisions relating to the future of the organisation and the manner in which it needs to respond to other pressures and influences.

**Q5. What do you mean by goals?****Answer :**

“Goals are the targets attributed by features which an organization wants to achieve”. Goals, are not time framed and specifically quantified.



## **UNIT**

# **2**

## **Environmental Analysis for Strategy**

### **LEARNING OBJECTIVES**

After studying this unit, one would be able to understand,

- ❖ The Concept of Strategic Position and its Impact on Organization.
- ❖ The Concept, Features and Types of Environment.
- ❖ The External Environmental Analysis – Micro-Environmental Factors, Industry Analysis, SWOT Analysis and Key Drivers to Change.
- ❖ The Internal Environmental Analysis – Value Chain Analysis, Core Competencies, Cost Efficiency and Capability Building and Management.

### **INTRODUCTION**

The environment refers to the surroundings, external objects, influences in which someone or something occurs. All the parties, organizations, institutions and influencing factors constitutes the external environment of business. It is very important for the industry to analyse the external and internal environment for creating strategy. In external environment, the macro-environmental factors include demographic elements, political forces, economic elements, socio-cultural factors, technological factors etc.

Industry analysis facilitates in analyzing the strengths and weaknesses of a firm in relation to its competitors in the industry. It reveals the structural realities of a specific industry and the level of competition existing in a particular industry. The BCG, GE and Ad Little Models can be used to understand the industry.

Internal environment of an organization is characterized by resource, capabilities, and competencies, of an organization. The internal environment plays, a key role in the strategic management process of the organization. It is very important for a firm to perform its internal analysis.

In an international economy factors such as labor cost, financial resources, raw material and so on are the internal factors which acts as the main source of competitive advantage. Based on that analyses of such factors strategies formed in order to withstand the global competition. While analysing the internal organization it is must for the organisations to adopt and keep global mind-set wherein the managers need to analyse, understand and manage the internal affairs of an organisation from the global market prospective.

## 2.1 STRATEGIC POSITION

**Q1. Describe the strategic position and its impact on organization.**

**Answer :**

For answer refer Unit-I, Page No. 1.20, Q.No. 20.

## 2.2 EVALUATING A COMPANY'S EXTERNAL AND INTERNAL ENVIRONMENTAL ANALYSIS FOR CREATING STRATEGY

**Q2. What is environment? Explain its characteristics.**

**Answer :**

### Environment

The environment refers to the surroundings, external objects, influences or circumstances in which someone or something occurs. As the environment affects an organisation in many different ways it is very essential for the firms to understand it. The organisational environment is sum of all the conditions, events and influences that surround and influence it.

#### Characteristics of Environment

An environment usually has many characteristics. Some of the significant characteristics of environment are as follows,

##### 1. Environment is Complex

The environment includes many factors, events, conditions and influences emerging from various sources. All these aspects do not occur in isolation, but communicate with each other for developing completely new influences. It is very difficult to understand the factors which forms a given environment.

##### 2. Environment is Dynamic

The environment is continuously changing in nature. There is dynamism in the environment leading to constant changes in its shape and character as many different influences operate in the environment.

##### 3. Environment is Multi-faceted

The shape and character of an environment relies on the perception of the observer. Different observers perceive changes in the environment or new development differently. It is often observed that the same type of development is considered as an opportunity by one organisation and threat by another organisation.

##### 4. Environment has a Far-reaching Impact

Environment has a significant impact on organisations. The growth as well as the profitability of an organisation relies mainly on the environment in which it carries out its operation. The environmental changes affect the organisation in many different ways.

**Q3. Explain the evaluation of company's external and internal environment for creating strategy.**

**Answer :**

*Model Paper-I, Q7(a)*

The company's environment can be analyzed or evaluated for creating strategy through external and internal environment analysis.

##### 1. External Environment Analysis or Evaluation

For answer refer Unit-II, Page No. 2.3, Q.No. 5.

##### 2. Internal Environment Analysis or Evaluation

For answer refer Unit-II, Page No. 2.14, Q.No. 18.

### 2.2.1 External Environmental Analysis

**Q4. What do you mean by external environment and its opportunities and threats? Discuss the various components/activities/inputs of external environment for creating environmentally aware organization.**

**Answer :**

#### External Environment

All the parties, organisations, institutions and factors influencing them constitutes the external environment of business. Such factors hold both individual and combined impact on the constituents of both micro and macro environment.

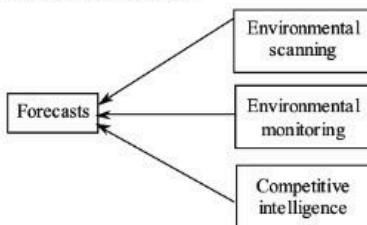
The macro economic environment of any business includes those players and factors who which have a direct impact on the operation of the companies. On the other hand micro environment refers to the suppliers, employees, customers and competitors of business.

#### Opportunities and Threats

Opportunities are those favourable conditions in a firm's environment which help the firm in strengthen its position in market. Whereas, threats are those unfavourable conditions in a firm's environment which may impose a risk or damage the firm's position in market.

#### Components/Activities of External Environment

The key components or inputs which helps the managers to become environmentally aware are forecasting, scanning, monitoring and gathering competitive intelligence. The figure below shows the relationships between these key components/ activities inputs,



**Figure: Components/Activities of External Environment**

#### 1. Environment Scanning

The scanning of environment deals with the analysis of the external environment of a firm for estimating the environmental changes in future and for recognising the already existing changes. A successful environmental scanning provides information to the organisation about the critical trends and events before the changes have actually established any identifiable pattern and before competitors identify them.

#### 2. Environmental Monitoring

The environmental monitoring monitors the evolution of environmental trends, series of events or sequences of activities. But these aspects are not involved in the environmental scanning process. A firm may come across these aspects either eventually or by the trends which were brought to its attention from outside the firm. The environmental scanning provides information about the trends, which needs close monitoring and closer evaluation. The process of monitoring helps the firm to analyze how drastically the environmental trends are changing the competitive perspective.

#### 3. Competitive Intelligence

A competitive intelligence assist an organisation to avoid surprises or shocks by predicting moves and decreasing the response time of competitors. It facilitates the firms in determining and defining their industry and recognising the strengths and weaknesses of rival industries. It involves assembling of competitive intelligence related with gathering data on competitors and predicting such data for taking managerial decisions. The internet has rapidly increased the speed at which the firms can acquire competitive intelligence. But aggressive attempts made by the firm for collecting competitive intelligence may result in unethical or illegal behaviours.

#### 4. Environmental Forecasting

The above inputs are more useful only when the forecasting is done appropriately. The environmental forecasting deals with the improvement of probable projections about the direction, scope, speed and degree of environmental change. Few forecasting issues are highly specific to a particular firm and the industry in which it competes. But the main risk of forecasting is that the managers may neglect some important areas while forecasting. They either presume that the world is certain and open to the accurate predictions or they presume the world as uncertain and unpredictable. The major issue is that under estimating the uncertainty can result in strategies which neither protects against threats nor takes the benefits of opportunities.

#### Q5. How do you analyze the external environment of an organisation?

**Answer :**

*April/May-09, Q3(a)*

The strategic analysis process deals with the evaluation of different external environments in which the organisations carryout their operations. This evaluation process is sometimes known as the "scanning" of the external environment. The analysing process of external environment is expressed as PEST analysis. PEST stands for "Political, Economic, Social and Technological" factors which exists within the external environment. The PEST analysis concept is very simple but apart from the four factors covered by PEST analysis, there are several variables which a firm must consider.

The following points helps us to know the analysis of some of key external environment,

#### 1. Demographics

The demographics basically involves all markets and economic trends. The external environment in which an organisation carryout its operations relies on the way in which the population build and the individuals who are involved in it. The key factors that are affected by the demographics are the type and features of consumer behavior, marketing and promotion, staff recruitment, the development of enterprise capability and competence and the wider process of future strategic planning.

#### 2. National and International Economic Conditions

The organisations mostly tries to assess and examine the prospective outcomes of the economic conditions faced by them if for instance it may evaluate the following aspects,

- (a) The various trends in economic growth and Gross Domestic Product (GDP).
- (b) The relative rates of inflation.
- (c) The interest rates.
- (d) The international variations in relative currency values.
- (e) The employment levels and prospect.
- (f) The unemployment trends.
- (g) Trends in the international trade management.

The key determinants of the existing economic conditions are the policies of governments and international institutions.

#### 3. Industry and Sector Structure

It is very essential for the strategic planners to have adequate knowledge about the trade or industry structure in which the firm carryout its operations. The firms mostly have an adequate knowledge about its domestic market, but it is essential for the enterprise to analys the structure of overseas markets in which it is planning to grow.

#### 4. Markets

The markets in which an organisation carryout its operations are the important elements of the external environment. An effective market analysis is required for the formulation of a strategy and for taking strategic decisions in any business organisation or a public sector body or a non-profit organisation. The reason for this is that the nature and behaviour of markets influences or limits the selection of strategies and the methods through which they are executed. The market analysis process involves following aspects,

- (a) Market research
- (b) The assessment of business risk
- (c) Sales and market forecasting
- (d) A consumer and buyer behavior analysis
- (e) Market segmentation.

#### 5. Technology

The strategic and operational decisions are taken on the basis of the existing technological conditions and on the degree of change in the knowledge and technology foundation of the external environment. The competitive position and technological adaptation are closely associated in the markets like electronics, computing, telecommunications, fast moving consumer goods, data management and security services.

#### 6. Social and Cultural Factors

The social and cultural factors directly affect the attitudes of individuals, consumer and business behavior. The organisational operations are affected by the social trends, changes in education or the attitudes to work and leisure and the changing expectations. Usually, the firms do not operate as a closed system, instead they operate as a open system which is influenced by the changes that exists within its external environment. The values of an organisation are basically build by the ethics and standards which signifies the society. The attitudes and behavioural patterns are build on the basis of the ethical and moral standards.

#### 7. The Political and Legislative Environment

The political decisions influences the economic and social trends, markets, industrial structure and employment law. It is very essential for an organisation to have knowledge about the political and legislative environments of all the countries in which it is performing its operations.

##### 2.2.1.1 Macro Environmental Factors – Demographic Elements, Political Forces, Economic Elements, Socio-Cultural Factors and Technological Issues

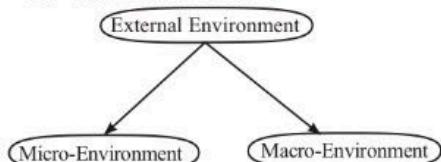
#### Q6. Explain in detail about various components of external environment.

**Answer :**

*Model Paper-II, Q7(a)*

The external environment is catagorized into two components. They are,

- I. Micro environment and
- II. Macro environment.



**Figure: External Environment**

Micro environment comprises of various parties who can directly influence the company's capability to manufacture and sell products. The various participants in the micro environment are suppliers, channel members, competing firms and customers. Macro environment comprises of various factors like political factors, legal factors, social factors, economic factors, demographic factors, and technological factors which influences company's profit and sales levels.

### I. Micro Environment

Micro environment of business is usually effected by the following factors,



**Figure: Micro Environment of Business**

#### 1. Input Suppliers or Suppliers of Inputs

An important factor in a company's success is low cost production of goods. This requires that all the time there has to be an assured and uninterrupted supply of inputs particularly raw material.

In case the supply of raw material is uncertain the producer company will not have any choice but to stock more raw materials. This naturally puts financial burden on the company and lowers its profit margins. It is also observed that some firms, in order to gain monopoly, will have to secure its raw materials from one supplier. It is however not a reliable policy to depend on one supplier. Multiple sources of input suppliers obviously reduce their risks.

#### 2. Workers and their Unions

Labour is a vital input in production. Its nature is different from the other major inputs in production i.e., raw materials. The labour is provided by workers who may or may not be organised. When the workers are not organised the bargaining power of the company is much strong.

However, if the workers are organised then they will be in a position to bargain better. These days any policy that disturbs labour peace at the company level may adversely affect its competitiveness. Also constant conflict between labour and management will hamper its growth and overtime may transform it into a sick unit.

#### 3. Customers

A business firm must find customer's for its products. Customers thus constitute the most important element in the micro environment of the business. Their loyalty to product depends mainly on the degree of their satisfaction. The world's biggest businesses have now set up systems for regularly tracking customer attitude or customer satisfaction because satisfaction of customers is the ultimate benchmark of the company's success.

#### 4. Marketing Intermediaries

In the micro environment, marketing intermediaries such as wholesalers, retailers, distribution firms, agents etc. Constitute an important element. Most companies find it too difficult to reach the consumers as they do not have a network to market their products.

Distribution firms and agents in such cases render useful service in popularizing a product. In case of a successful product, the marketing intermediaries such as wholesalers and retailers are not required. Usually a company lacking in distribution channels cannot afford to have a conflict or strained business relations with the wholesalers or retailers.

#### 5. Competitors

Companies usually do not enjoy monopoly. In the real business world a company encounters various forms of competition. The most common competition which a company's product now faces is from differentiated products of other companies.

This type of competition is called 'the brand competition' and may be found in almost all durable goods markets. Sometimes companies face 'the product form competition'.

For example, a refrigerator manufacturing company specializes in producing frost free refrigerators only but the competition it is likely to face may not be enduring and it continues to manufacture other frost free refrigerator. It is just possible that directly cooling refrigerators also turn out to be serious challengers.

#### 6. General Public

The word public refers to people in general. According to Phillip Kotler, a public is any group that has an actual or potential interest in, or impact on, a company's ability to achieve its objective. Public includes environmentalists, consumer protection groups, media persons, etc. These groups by their actions pose a threat to the companies. It is now well established that the manufacturing units usually pollute the environment.

#### II. Macro Environment

For answer refer Unit-II, Page No. 2.6, Q.No. 7.

**Q7. What are the various factors that affect the macro-environment of business?**

**Answer :**

### Macro Environment

The various factors affecting macro environment of business not only determine the opportunities of business but also at times have serious constraining effect. They are as follows,

#### 1. Social Factors

Business and society have a symbiotic relationship. Both of them need and benefit each other. Therefore, business has a social responsibility towards the society in which it exists. Society has many social factors like culture, values, tastes, preferences and so on and all of these must be addressed by the business organisation as business is for the people.

#### 2. Cultural Factors

Every country has a different set of values, beliefs, customs. They may vary from region to region and from individual to individual. So the business must consider the culture of a community or country must therefore be considered by a business manager while formulating policies and marketing products.

#### 3. Economic Factors/Elements

Business depends on the economy of a country. Economic factors include infrastructure per capita income, money supply, price level, employment generation, propensity to consume, etc. They all have a bearing on the business environment. Business therefore should have all the information required and study the impact of these factors on the business.

#### 4. Geographic/Demographic Elements/Factors

Geographic factors are locational factors like population, location of the business, sex-ratio (male-female ratio), birthrate, mortality rates and geographical distribution of the population. These geographic factors must be considered analytically as they influence the policies of a government regarding the location of industries.

#### 5. Technological Factors/Issues

Each day brings new technology, old ones become obsolete. Technology makes the business simple. The government has realized the importance, so policies concerning different aspects of the technology have been formed. Business managers should keep abreast of the rapid technological changes, because this information is vital for its functioning.

#### 6. Political Factors/Forces

Business growth depends on the political environmental factors. If the environment is conducive then only will the business flourish. There is always an element of risk associated with these political factors. Risk could be in terms of the type of government in power and its business policies, perception in matters of foreign investment and how it regulates the market. The business organisation therefore has to keep in mind the political aspect while making a foray into the market.

#### 7. Legal Factors/Elements

There is a law concerning every aspect of business, this is in order to provide safety and security. There are various rules and regulations regarding different business processes. It could be foreign exchange management, essential commodities act, patents, copyright, labour laws, corporate management, consumer protection act and so on. Business firms must conform to the law if they want to be on the good side of the government.

#### 8. Ecological Factors/Elements

Whenever a business firm or industry is set up in a location, it must ensure that it is not harming the environment that is polluting it. For this purpose the Indian government has enacted pollution acts such as – The Water Act 1974, The Air Act 1981 and The Environment (Protection) Act 1986, one of the social responsibilities of business is to ensure that the environment in which they operate is kept free of smoke and effluents to prevent environmental deterioration.

#### 2.2.1.2 Industry Analysis – Dynamic Perspective, Purpose and Importance

**Q8. Explain a dynamic perspective of industry analysis.**

**Answer :**

Traditional industry analysis faced criticisms due to its static nature. The industries are undergoing rapid changes because of the changes in technology and customer preferences. Additional tools and frameworks are required for understanding and evaluating the rapid changes taking place in the industries.

Prof. Anita McGahan of Boston University propounded a very helpful framework for analysing of the industry evolution which depends on the identification of the core activities and the core assets of an industry and the threats they face. Depending on two types of threats of obsolescence any one of the four possible trajectories can be followed by an industry.

The first threat of obsolescence is faced due to core activities of the firm. Core activities are those activities which help the industry to earn profits. The second threat of obsolescence is faced due to the core assets of an industry. Depending on the potential combinations of threats to core activities and core assets, the following are the four change trajectories,

#### 1. Radical Change

When the core activities and core assets undergo the threat of obsolescence it leads to radical change.

#### 2. Intermediating Change

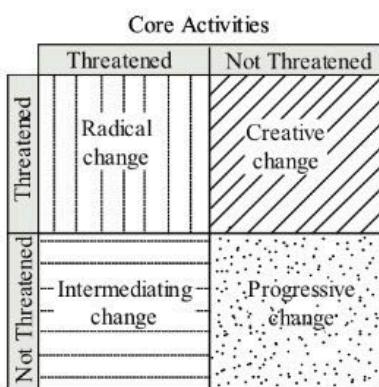
Intermediating change takes place when core assets are not threatened but core activities undergo the threat.

#### 3. Creative Change

The industries follow creative change trajectory when core assets are threatened and core activities are not threatened.

#### 4. Progressive Change

When both core assets and core activities does not face any threat of obsolescence then progressive change takes place in industries.



**Figure: Four Evolutionary Trajectories of Industry Change**

These four change trajectories spread out over many years even sometimes they take decades. So, the firms in industry get sufficient time to respond to the changes. While undergoing radical or intermediating changes, it is better for the firm to aggressively aim towards earning the profits and should avoid investments as it reduces the strategic flexibility in the future. The firms which are facing radical changes can adopt diversifications whereas the firms which are facing intermediating change should determine incentive

ways for earning profits from their core assets. The strategies which are followed by the firms that are facing creative change involves spreading of new-project development risk over a portfolio of assets along with outsourcing project management and development tasks. Successful companies in progressive change industries occupy different positions depending on the geographic, technical or marketing expertise. A system of interrelated activities which are protective against competitors was also developed.

**Q9. Discuss the purpose and importance of industry analysis. How do you carryout a research on industrial analysis?**

**Answer :**

#### Purpose of Industry Analysis

Industry analysis facilitates in analyzing the strengths and weaknesses of a firm in relation to its competitors in the industry. It reveals the structural realities of a specific industry and the level of competition existing in a particular industry.

It also helps the firm to know whether the field which it has selected is attracting or not and to analyse its position within the industry.

#### Importance of Industry Analysis

Industry analysis helps the firms in different ways which are as follows,

##### 1. Industry Attractiveness

Industry analysis helps to determine the,

- The potential growth of the industry to which a firm belongs.
- The potential and prospective levels of profits of industry.
- The type of competitors as well as their capabilities in the same industry.

If the firm's growth rate is favourable and if its profit potential is best then, it can confirm that it has chosen attractive field which is also having a scope for other firms too.

At this point of time, the firm is required to gather data about specific aspects such as,

- Nature of industry whether a growing, maturing or an emerging industry
- Speed at which the industry is growing
- Limitations and hurdles in the growth of the industry
- Ensuring whether the returns are consistent or not.

## 2. Competitive Position

Industry analysis helps the firm to know its position in the industry in relation to its competitors. This in turn helps the firm,

- (i) To know its own strengths and weaknesses.
- (ii) To know whether it is providing value for money when compared to other competitors in the industry.
- (iii) Consideration in the integration of new attributes in its product and service so that it can improve its position in an industry.

Evaluating competition helps the firm to know its strengths and weaknesses. With the known strengths, the firms can attack on the weaknesses of the competitors thereby, could be used as a weapon for gaining competitive advantage.

A firm which has superior or distinguishing competencies when compared to its competitors can rule the market, but the high dynamic environment imposes restrictions on the growth and development of the firms.

### Researching of Industrial Analysis

Irrespective of the purpose of analyzing an industry it is not an easy task to analyze as it consists of an integration of both secondary and primary research. In order to have a clear understanding about the industry, secondary sources like the company databases, trade magazines, publications of industry associations and newspapers are being used. The secondary research is followed by primary research like administering a questionnaire to industry professionals or conducting personal interview to comprehend certain specific problems. Ultimately, the knowledge with respect to industry which is gained through secondary and primary sources is organized and presented in the form of a report. Almost all the governments all around the world conducts the industry analysis from time to time in order to understand the effect of their policies and assure fair trade and unearth policy bottlenecks. Majority of the management consultants carries out the regular industry analysis in order to highlight their capabilities. Business research firms are expert in the industry analysis such research firms have single handedly changed the industry analysis into a science. The field of industry analysis is growing along with increasing number of business research firms who emphasizes on the selected industries.

Industry analysis has emerged into a specialized activity needing the domain knowledge, analytical skills and editorial expertise. As the number of business research firms in industry analysis are increasing, day by day the quality of industry reports is also improving. With the development of new tools the quality of industry analysis will also improve. Good industry analysis would indicate enhanced business decisions which would yield the best results.

### 2.2.1.3 BCG, GE and Ad Little Models for Understanding Industry

**Q10.** Discuss in detail about BCG approach or BCG matrix.

**Answer :**

*Model Paper-III, Q7(b)*

Business portfolio is the collection of business and products that make up the company. The best business portfolio is the one that best fits the company's strength and weakness.

The company should analyse its current business portfolios and decide which business should receive more, or less investment and develop growth strategies of adding new products or businesses to the portfolio.

Portfolio analysis is the major activity in strategic planning where the company evaluates the businesses that make up the company.

Management's first step is to identify the key businesses making up the company. These can be called as the Strategic Business Units (SBU). An SBU is a unit of the company that has a separate mission and objectives and that can be planned independently from other company businesses.

An SBU can be company division, a product within a division or sometimes a single product or brand.

The next step in business portfolio analysis is to assess the attractiveness of its various SBUs and decide how much support each requires. The best-known portfolio planning group, a leading management consultancy firm and by General Electric.

### Boston Consulting Group (BCG) Approach

BCG approach is also called as growth share matrix. It is portfolio planning method that evaluates a company's strategic business units in terms of their market growth and relative market share. SBUs are classified as stars, cash cows, question marks and dogs.

#### (a) Stars

They are high growth, high share businesses or products. They often need high investments to finance their rapid growth. Eventually their growth will slow down and they will turn into cash cows.

#### (b) Cash Cows

They are low growth, high share business or products. These established and successful SBUs need less investment to hold their market share.

Thus, they produce a lot of cash that the company uses to pay its bills and to support other SBUs that need investment.

**(c) Question Marks**

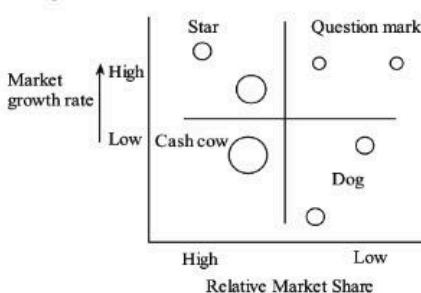
They are low share businesses units in high growth markets. They require lot of cash to hold their share, let alone increase it. Management has to think hard about which question marks it should try to build into stars and which should be phased out.

**(d) Dogs**

They are low growth and low share businesses and markets. They may generate enough cash to maintain themselves, but do not promise to be large source of cash.

The circle in the growth share matrix represents the company's current SBUs. The areas of the circles are proportional to the SBU's sales revenues. The company should decide whether to invest, harvest or divest based on the position of the each SBU on the growth share matrix.

The company can invest more in the business to build its share or to hold the SBUs share at the current level. It can harvest the SBU, milking its short-term cash flow regardless of the long-term effect.



**Figure: BCG Matrix**

The company can divest the SBU by selling it or phasing it out and using the resources elsewhere. As the time passes each SBU changes its position in the growth share matrix.

An SBU starts as question mark, moves into star category. If it succeeds and then into cash cow. At later stages it turns into 'dog'.

**Q11. Explain briefly about general electric matrix.**

**Answer :**

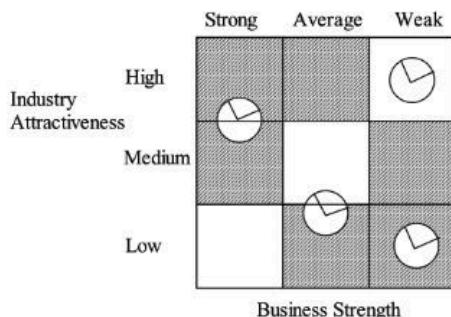
**GE Matrix**

The General Electric (GE) approach also called a Strategic Business Planning Grid. It uses two dimensions – Industry Attractiveness and the Company Strength.

The best businesses are those located in highly attractive industries where the company has high business strength.

Industry attractiveness index is made up of market size, market growth rate, industry profit margin, amount of competition, seasonality, cyclically of demand and industry cost structure. All these factors are rated and combined in an index of industry attractiveness. Here, industry attractiveness is described as high, medium and low.

Business strength index is made of company's relative market share, price competitiveness, product quality customer and market knowledge, sales effective-ness and geographic advantages. These factors are rated and combined in an index of business strengths, which is described as high, medium and low.



**Figure: GE Matrix**

The upper left cells is the area where the company should invest and grow. The middle area is the zone where the management should go for harvesting and the lower right area, the management should go for divesting.

The areas of the circles are proportionate to the relative size of the industry in which the SBUs compete. The pie slice represents the SBUs market share.

**Limitations of GE Matrix**

The limitations of GE matrix are as follows,

1. They are difficult, time consuming and costly to implement.
2. Difficult to define SBUs.
3. They focus only on the current businesses not on the future planning.
4. Does not aid in terms of resource allocation and strength of new businesses.

**Q12. Explain in detail about Arthur D Little model.**

**Answer :**

The American consultant Arthur D Little developed a matrix which looks at 'stage of industry maturity' alongside 'company's competitive position'. In other words, the matrix connects the stages of the product life cycle with the strength of business.

This matrix/model depends on competitive position and maturity stage of industry. The competitive positions of the businesses are identified into five main categories i.e., weak, tentative, favorable, strong, dominant, on the vertical axis. On the horizontal axis, the four steps in the product life cycle are marked i.e., embryonic, growth, maturity, and ageing. This results in a four-by-five matrix as represented in the following figure,

Business Strength	Industry Maturity				
	Embryonic	Growth	Maturity	Ageing	
Dominant					HARVEST
Strong					HOLD
Favourable		BUILD			
Tentative				Unacceptable ROI	
Weak					

**Figure: Ad Little's Model/Matrix**

The stage of industry maturity ranges from embryonic to ageing. Both competitive position and industry maturity help in identifying the strategic conditions of SBU. There will be variations in this approach based on the business position and the stage in the product life cycle. Therefore, the investment must be made in business when the products of business are in embryonic or growth stage and has strong competitive position. For this type of business unit, the "BUILD" strategy is more appropriate. When the products of business are in maturity stage and has strong business strength, then the "HOLD" strategy is recommended. The "HARVEST" strategy is suggested for the businesses whose products are in the decline stage and have strong business strength.

In case if the business is in maturity stage and has weak business strength, the appropriate strategy would be 'DIVEST' strategy. Because, the business will yield poor returns on investment if it has weak business strength. Therefore, 'Divest' strategy must be adopted in such situations.

#### 2.2.1.4 Key Drivers for a Change

##### Q13. What are the key drivers of change that affect industries and markets?

**Answer :**

The different forces which influences the structure of an industry, sector or market are known as key drivers of change and identifying such key drivers of change is an essential task. Inspite of the changes prevailing in the macro-environment of several organisations, it will be the integrated impact of few factors which will be more significant than the individual factors. Some of the important key drivers of change are as follows,

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#### 1. Market Globalisation

There are many different reasons behind the increasing trend of market globalisation. It has been observed that customers needs and preferences are becoming almost similar in few markets. When markets globalise, the firms which are carrying out their operations in such markets becomes the global customers and may look for the suppliers who carryout their operations on global basis. The development of global communication and distribution channels may direct/drive globalisation and may in turn provide opportunities for transferring the global brands all over the countries. The marketing policies, brand names and identities and advertising can be globally opportunities for transferring the global developed and may create global demand and expectations from customers and may also offer marketing cost advantages for global operators.

#### 2. Cost Globalisation

Cost globalisation may lead to competitive advantage as few organisations will have greater access or more knowledge about these advantages than other organisations. Sometimes the cost advantages, can be attained from the experience gained from the wider-scale operations. The other cost advantages can be attained through central sourcing efficiencies from lowest-cost suppliers all over the world. The country-specific costs like labour or exchange rates motivates the businesses to search globally for low cost for the purpose of meeting the costs of competitors which attains such benefits from their location. The other businesses faces high costs of product development and may consider the benefits which can be obtained by operating globally with few products instead of incurring the costs of many different types of products on limited geographical scale.

#### 3. Governments

The government activities and policies also acts as driver's of globalisation of industry. The globalisation process is promoted by technical standardization among the countries of several products like automobile, aerospace and computing industries. The host governments tries to motivate the global operators to base themselves in their countries.

#### 4. Global Competition

Basically the global competition is increased by the changes in the macro-environment. This inturn drives globalisation. When the levels of exports and imports among the countries are high, then it increases the communication among the competitors globally. In few cases, the interdependence of company's operations globally also promotes the globalisation of its competitors.

Thus, the above mentioned were the key driver's of change that affects the industries and markets. It is very essential for all the multinational corporations to understand and have knowledge about all these drivers of change for carrying out its operations globally effectively.

### 2.2.1.5 SWOT Analysis – Concept, Features, Advantages and Pitfalls

**Q14. Define and discuss about SWOT analysis.**

**Answer :**

#### SWOT Analysis

SWOT analysis is a technique used for identifying the company's strengths, weaknesses, opportunities and threats. It determines the firm's strategic position by considering whether or not the present strategy of the firm is capable of dealing with the changes taking place in the business environment.

The method typically used is SWOT analysis aims to relate the strengths and weaknesses of the organisation based on an internal audit of the firm's capabilities against the opportunities and threats thrown up by the analysis of the external environment.

In order to conduct this type of analysis, the management must have a clear view of what the current strategy is. This is not always obvious.

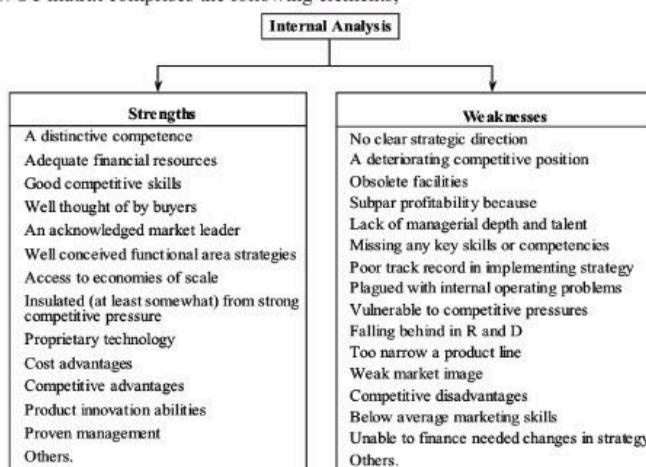
Essentially one wants to identify opportunities and threats, while at the same time identifying key aspects of organizational capability that provide strengths and weaknesses in dealing with these environmental changes.

#### Features of SWOT Analysis

The important features of SWOT analysis are as follows,

1. It's an acronym for strengths, weaknesses, opportunities and threats.
2. Managers are able to quickly preview their company's strategic situation with the help of SWOT analysis, as it identifies the causes of concern for the organisation.
3. 'Strengths' refer to the sources of competitive advantages and distinct competencies that the firm is enjoying. Any activity/feature is considered as strength if it is valuable for customers and if the firm achieves it more efficiently than its competitors.
4. 'Weaknesses' refer to the firm's limited reach to a particular location, plant, machinery, labour etc. It creates strategic disadvantage for a firm.
5. "Opportunities" are the identified areas of market, where a firm can apply its strengths to gain competitive advantage in those market areas. They often arise as a result of rapid changes in the markets. However, it is difficult to identify the relevant opportunities existing in the markets.
6. 'Threats' are the future expected causes of damage like, demographic shifts, advancement of technology, revision of regulations etc.
7. Thus, SWOT analysis tends to match the company's strengths with the identified opportunities and overcome the weaknesses by prevention of future expected threats.

The typical SWOT matrix comprises the following elements,



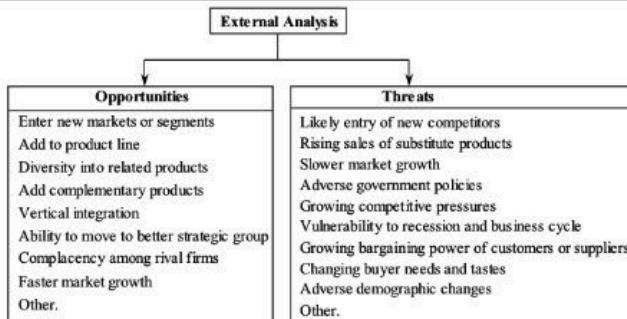


Figure: SWOT Matrix

**Q15. State the advantages and pitfalls of SWOT analysis.****Answer :****Advantages of SWOT Analysis**

The advantages of SWOT analysis are as follows,

1. SWOT analysis is a simple technique for the identification of company's strengths, weaknesses, opportunities and threats.
2. It is a cost effective procedure, incurring low cost of analysis.
3. It is adaptable and flexible to various market situations.
4. It is an self explanatory procedure that clarifies various issues.
5. It leads to the formulation of goal oriented activities in the firm.
6. It is a focal point (start-up point) for analysing the firm's strategies.
7. It enables the manager to identify the improvement and developmental areas in the organisations.
8. It allows matching the strengths of the firm with that of appropriately identified opportunities.

**Pitfalls of SWOT Analysis**

The following are some of the pitfalls of SWOT analysis,

1. It may not be simple while implementing it in a real-life situations.
2. It is just acting as a list of strengths, weaknesses, opportunities and threats. It does not state measures to utilize or to eliminate the listed items.

Example: Threats.

3. It only represents the analyst's views, which may be misinterpreted for being self-biased or poorly analyzed.
4. It involves high rate of ambiguity due to the false interpretations of threats with weaknesses or opportunities with threats.
5. It restricts the organisations in developing the new strengths instead encourages them to match existing strengths with the emerging opportunities.

**2.2.1.6 Porter's Diamond Model****Q16. Explain in detail about Porter's Diamond Model with determinants of national advantage.****Answer :**

Porter's diamond states that there are some fundamental reasons behind why few nations are highly competitive than other nations and why few industries within nations are highly competitive than other industries. Porter further suggests that the national home base of an organisation plays a key role in building competitive advantage globally. This home base offers the following factors which the organisation builds and expands for providing competitive advantages.

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### 1. Factor Conditions

There are certain factor conditions which assist the firm in specifying the basis of benefits on a national level. These conditions offer initial benefits that are developed for producing highly advanced factors of competition.

### 2. Demand Conditions

The different characteristics of the advantages of an organisation are built based on the home demand conditions.

### 3. Related and Supporting Industries

A successful industry may in turn provide benefits to related and supporting industries.

### 4. Firm's Strategy, Structure and Rivalry

The various characteristics of the firm's strategy, industry structure and rivalry in various nations assist in determining the bases of advantages. The figure given below depicts the Porter's diamond,

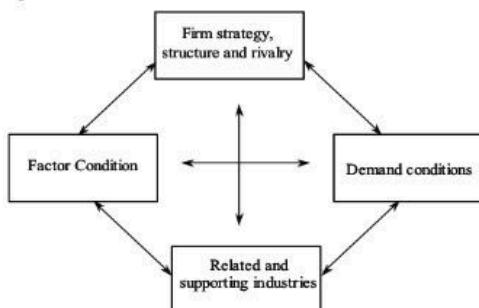


Figure: Porter's Diamond-The Determinants of National Advantage

The technique of Porter's diamond has been used in several ways. At the national level, the Porter's diamond is used by the government for implementing the policies which promote the competitive advantage of their industries. As the domestic characteristics of competition widely provide the benefits, the competition should be promoted at home, instead of protecting the industries from the global competition. But, the government can also encourage such benefits by assuring high expectations of product performance, safety or environmental standards or promoting vertical cooperation among suppliers and buyers on a domestic level.

Porter's diamond can also be used to measure the relative competitiveness of various regions within a single country. For the purpose of identifying the degree to which they can form home-based advantages to gain competitive advantage. Generally, the individual organisations are using Porter's diamond.

### 2.2.2 Internal Environmental Analysis

**Q17. What do you mean by internal environment? What are the factors influencing internal environment of organization?**

**Answer :**

#### Internal Environment

Internal environment of an organization is characterized by resource, capabilities, and competencies, of an organization. The internal environment plays a key role in the strategic management process of the organization. It is very important for a firm to perform its internal analysis.

Internal environment includes the strengths and opportunities like knowledge, skills, capabilities, communication, coordination etc. Determination or diagnosis of internal environment includes identification of strengths and weaknesses.

Strengths are the internal capabilities of the business organization in comparison with that of its competitors. The strengths may be the company's image, brand image, business synergies and functional areas of marketing, finance, production, R&D (Research and Development) and most important strength of human resources.

Weaknesses include those factors which tend to reduce the capabilities or competencies of the organization when compared to its competitors. It could be poor product quality, obsolete technology, high cost of production, poor marketing, financially weak and ineffective management.

#### Factors influencing Internal Environment

The following factors influencing internal environmental,

##### (i) Human Resources

Availability of personal, their skills, capabilities, knowledge, motivational levels, group dynamics are to be well diagnosed and are to be effectively utilised.

##### (ii) Financial Resources

Extent of investment, assets level, shareholders capacities etc. should be diagnosed.

##### (iii) Infrastructural Facilities

This includes diagnosing availability of equipments, their capacity, raw materials, their inflow, finished products, their outflow etc.

##### (iv) Technological Capabilities

The extent of technology prevailing in the organization, its usage and technology required are analyzed.

##### (v) Other Factors

These include, Leadership style, Superior-subordinate relations, Communication, Coordination, Motivational level, Group dynamics etc.

**Q18. How do you analyze internal organization? What are the challenges involved in analyzing internal organization?**

**OR**

**Describe the process of internal environment analysis.**

(Refer Only Topic: Analyzing Internal Organization)

**Answer :** April/May-II, Q3(b)

### Analyzing Internal Organization

In an international economy factors such as labor cost, financial resources, raw material and so on are the internal factors which acts as the main source of competitive advantage. Based on that analyses of such factors strategies formed in order to withstand the global competition. While analysing the internal organization it is must for the organisations to adopt and keep global mind-set wherein the managers need to analyse, understand and manage the internal affairs of an organisation from the global market prospective.

A global mind-set is the capability of the firm to examine, understand, manage the internal organisation. In such a manner that it is does not rely upon to the beliefs of a single nation, culture or context.

There, the process of analysing firm's internal organisation needs to examine collection of different resource in such a manner that it is does not rely upon different resources and capabilities. On the basis of this information the firm decide as to what resource and capabilities it possess when compared to other companies.

### Challenges in Analysing Internal Organization

The following are some of the challenges which are faced while analysing the internal organisation,

#### 1. Decision Making

It is a difficult task for a manager to scrutinize the firm's internal organisation on the based of which effective decisions are made. It is quite clear that decision making is a difficult task and involves many challenges from the fact that one-half of the organisations decision fail. The process of decision making involves the following points which needs to be taken into consideration,

- (i) The task of recognising promoting allocating safeguarding the resources capabilities and core competencies might be easy but in reality it is a challenging and a difficult task for a manager.
- (ii) The manager due to pressure from top manager faces difficulty in examining the internal organization.
- (iii) Misidentification and mistakes might result in the creation of barriers in achieving the competitive advantages.

#### 2. Conditions

Under critical situations managerial decisions are categorised into three conditions as follows,

##### (i) Uncertainty

In organization uncertainty may take place due to quickly changing economic and political trends, change in customer demands, transformation in societal values innovations in technologies and so on. All these factors together results in uncertainty and the managers faces greater difficulty in the decision making process.

##### (ii) Complexity

Complexities might occur due to environmental uncertainty and it may create large number of issues in examining and studying the internal environment.

##### (iii) Intraorganizational Conflict

Intraorganizational conflict might take place at the time of decision making process by management. A proper care must be taken while making decision so that no one is affected by it.

Finally after analysing the three conditions judgement has to be made i.e., The process of transforming ideas into successful decisions. While exercising judgement the decision maker must be aware of the risk and competitive advantage involved in it.

#### 2.2.2.1 Value Chain Analysis

#### Q19. Explain value chain analysis.

**Answer :**

Model Paper-III, Q7(a)

### Value Chain Analysis

The value chain analysis deals with the activities which enhances the capabilities and economic performance of the firm. It describes the activities needed for creating value of products or services for the customers with the help of value chain, the managers can ascertain the weaknesses and strengths of each activity of the firm in comparison to its competitors.

### Elements of Value Chain Analysis

The elements of value chain analysis are classified into two types which are as follows,

- I. Primary activities
- II. Support activities.

#### I. Primary Activities

The primary activities are those activities which directly relates with the actual creation, manufacture, development, sale and servicing of the product or service provided to the customers of the firm. The primary activities consists of series of activities with the help of which, the raw materials are converted into finished products. This series of activities consist of five major activities which are as follows,

**1. In-bound Logistics**

In-bound logistics handles and manages the materials and inventory obtained from the suppliers of the firm. The various procedures and tasks of operations involved in in-bound logistics are storage, raw material control and warehousing of materials received from different suppliers.

**2. Operations**

Operations deals with various activities and procedures which converts the raw materials, parts or other inputs into finished or final products. The operations consists of specific task/activities such as testing, stamping, fabrication and assembling in the manufacturing based settings.

**3. Out-bound Logistics**

The out-bound logistics deals with the movement of the final products to the channels of distribution. The outbound logistics emphasize on managing the flow and distribution of products to the direct buyers of the firm such as retailers and wholesalers. The technologies and innovations used in in-bound logistics to improve the time lines and efficiency can also be applied to the activities of outbound logistics.

**4. Marketing and Sales**

The various activities involved in marketing and sales of products are product mix, advertising, pricing, promotion, distribution channels, working with wholesalers and sales force issues. The marketing activities help the firms in analyzing its scope of value adding activities.

Hence, excellence in marketing activities help the firms in building their effective competitive positions and strengths.

**5. Service**

The effective customer service is the main-value adding activity which every firm tries to improve over the period of time. Customer service consists of activities like warranty repair, installation, modification, customer support, etc.

**II. Support Activities**

The remaining activities of the value chain analysis helps in supporting the primary activities. These activities also helps the firm in enhancing and coordination and attains efficiency with in the primary the value adding activities of the firm. The following activities are involved in support activities,

**1. Procurement**

Procurement deals with purchasing of required inputs, resources and components for the primary value adding activity of the firm. The purchasing function includes certain procedures like billing systems, methods for dealing with suppliers and information systems about various components and parts.

**2. Technology Development**

Every value adding activity of the firm needs technology. As technology changes rapidly in every firm or industry (like new forms of software, security systems etc). This support activity is considered as the most important activity in every firm.

**3. Human Resource Management**

The human resource management means managing and working with personnel all over the firm. It includes various activities such as selecting, hiring, training and compensating the employees, to perform their work in a better manner.

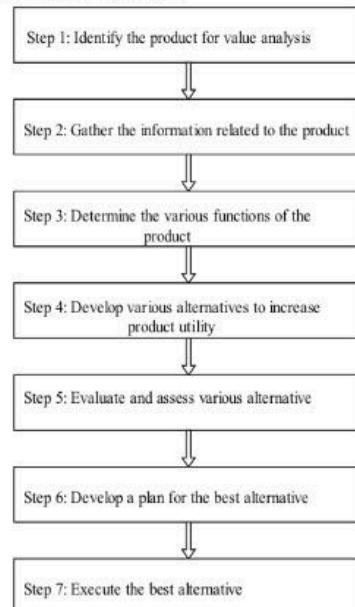
**4. Firm Infrastructure**

The firms infrastructure involves various activities like accounting, information systems, finance, legal affairs and payroll. These activities helps in carrying out all the other value adding activities of the firm. As infrastructure costs are difficult to exclude or separate they are mostly called as overhead expenses costs.

**Q20. What are the steps involved in conducting a value chain analysis?****Answer :**

Value analysis is a cost reduction technique which aims at developing the ideas that reduces the cost of the product or increases the product utility.

The steps involved in value analysis process are shown in figure given below,



**Figure: Value Analysis Process**

**Step 1: Identify the Product for Value Analysis**

The value analysis process begins with identifying the product for which value analysis has to be conducted. The product identified for value analysis must increase the sales revenue after it is redesigned and must not become outdated in future. Value analysis can be conducted either for the entire product or few elements of the product.

**Step 2: Gather the Information Related to the Product**

The next step is to gather significant information about the product. This information is related with the,

- Manufacturing processes, layout of machine and instruction sheets
- Total cost information and marketing information
- Technical specifications with the help of diagram
- Plant capacity and time consumption details
- Recent developments in the product substitutes.

**Step 3: Determine the Various Functions of the Product**

In this step, the various functions to be performed by the product such as, primary functions, secondary functions and tertiary functions are determined and the significance. The each function is defined. The functions involving high cost are also identified in this step.

**Step 4: Develop Various Alternatives to Increase Product Utility**

After gathering significant product information and determining the functions of each element of the product. The next step is to develop various alternatives for increasing the product utility. The team performing value analysis can conduct brainstorming sessions for gathering ideas from different people and motivating them to share their valuable opinions and suggestions.

**Step 5: Evaluation of Alternatives**

The various ideas or alternatives recorded in the step 4 are evaluated and assessed for determining the extent to which each alternative can meet the financial and technical requirements of the firm. After evaluating all the alternatives the alternatives or ideas which are technically effective and involves less cost are selected for further examination.

**Step 6: Develop a Plan for the Best Alternative**

In this step, a comprehensive plan is developed for the selected ideas while examining them. Development plans involves. Preparing diagrammatic representations, developing models and conducting meetings with concerned departments.

**Step 7: Execute the Best Alternative**

Finally, the best alternative or idea is transformed into a prototype and used in manufacturing activities. The performance and outcomes of this prototype is recorded. Functional analysis and product cost analysis are conducted for determining the net savings derived from value analysis.

**Q21. Discuss the significance and limitations of value chain analysis**

**Answer :**

May-17, Q3(b)

**Advantages/Significance of Value Chain Analysis**

The use of value analysis technique helps in providing many direct and indirect benefits which are as follows,

- Value analysis helps in decreasing the cost of the existing products or systems.
- It helps in avoiding the unwanted cost in the new products or systems.
- The use of value analysis results in overall cost consciousness and develops a general attitude towards costs.
- It encourages import substitution.
- It helps in enhancing the value of the product by using new materials and processes.
- It is a faster cost reduction technique.
- It helps the firms to save costs and attain higher profits.
- As value analysis team can be formed from the staff who are available in different sections or departments. Therefore, it needs very less expenditure.
- Value analysis improves the utility of the product by simplifying it, by using better material and by using efficient and easier manufacturing methods.
- It helps in recognizing the useless functions and tries to eliminate them.
- It helps in avoiding duplication and additional costs by integrating common functions in between different elements into fewer ones.
- It helps in determining the components and materials which can replace the costly items.

**Disadvantages/Limitations of Value Chain Analysis**

The disadvantages of value chains are as follows,

- It is not clear about the suitability of the processes.
- Sometimes in more than one value chain it may use similar processes.
- It is highly expensive.

### 2.2.2 Resources and Core Competencies

**Q22. What are organizational resources? What are its types and why are they valued?**

**Answer :** *Model Paper-I, Q7(b)*

#### Organizational Resources

Organizations are formulating strategies based on the corporate strengths and weaknesses, which needs to be ascertained depending on the organizational resources, capabilities and competencies.

Resources refer to anything which can be productively utilized in an organization. Some of them includes, Materials, components, parts, machinery, capital, equipment, human resources like employees efficient, technical personal and talented managers.

Resources constitute the most essential components for an organization, which helps in attaining competitive advantage. The firms attain competitive advantage through distinctive blending, bundling and building the group of resources.

#### Types of Organizational Resources

Organizational resources are of two types,

- (i) Tangible resources are those resources which have physical existence and can be quantified.  
Example: Machinery, building, equipment etc.
- (ii) Intangible resources are those which do not have physical existence i.e., they can't be seen and touch, but they have been incorporated into the organizational culture since ages.  
Example: Knowledge, skills of employees, customers perception regarding the product etc.

#### Reasons for Valuing Resources

The following factors are the reasons for valuing the resources of an organization,

##### 1. Competitive Superiority

The competitive ability of an organization depends upon its resources and the pattern of their allocation. Because the organizations that are possessing varying resources will be having varying levels of competitive abilities. For instance, the companies possessing latest technology have the competitive superiority over its competitors in designing and producing products that are highly novel and innovative than their rivals. Companies with expert human resources, attains competitive superiority over others as they are capable of generating effective ideas, good quality but low cost, customer service.

##### 2. Resource Scarcity

Resource scarcity refers to a situation wherein the organization lacks the most important manufacturing resources that adds value to a product or a service such resources if acquired and utilized properly creates competitive advantage for the firms.

#### 3. Inimicability

If the firm possess such a resource which cannot be imitated/copied easily then it constitutes the differentiated capability of the firm, but if they adopts those resource that can be easily imitated/copied then the firm's enjoy differentiation only in the short run.

For promoting the unique capabilities, the firm should create its unique resources depending upon the following features,

##### (a) Physically Unique Resources

The firm should develop physically unique resources as they cannot be easily copied/imitated. Example: Ingredients of Maggi, design of BMW cars etc.

##### (b) Path-Dependent Resources

Few firms after putting their continuous efforts are able to develop path-dependent resources which is very difficult for the other firms to copy/imitate. Example: Nano cars produced by the Tata Motors.

##### (c) Casual Ambiguity

Sometimes, few firms develop a competitive advantage which cannot be identified by others and hence cannot be detected and copied. Example: Oreo coconut cream biscuits produced by (Parle-G).

##### (d) Economic Deterrence

Economic deterrence becomes prevalent when the capital needed to establish a manufacturing facility is huge, even though its market size is small.

#### 4. Appropriate Distribution of Profits

Any business is said to be successful if it is able to acquire resources from various parties such as owner/shareholders human resources, input-suppliers, output dealers thereby contributing to its profits.

Hence, the profits attained by the firms business are shared among all the resource providers.

#### 5. Durability

Durability refers to the expected time span within which the resources exhibit value.

There are certain resources whose value increases over a period of time whereas, even there are certain resources whose value depreciates over time. Example: Today's technology becomes obsolete in future era.

#### 6. Substitutability

The value of product resource decreases if the substitute product can be developed easily and vice versa.

Example, development of autorickshaws decreased the value of Tonga's and rickshaws moved physically.

**Q23. Define core competencies. How an organization can build its core competencies?****Answer :****Core Competencies**

The capabilities that can be employed as a source of competitive advantage for a firm over its competitors are referred as 'Core Competencies'. The core competencies reflects the personality of a company and differentiates the company from its competitors. They, are the most important elements of a company and company performs these activities especially well, when compared to its rivals. These activities adds a remarkable value to the company's goods or services over a long period of time.

**Example**

The company 'Microsoft' has a huge amount of cash in hand and it is able to purchase all the essential things and can hire skilled workers required to manufacture products that produces high customer value. Therefore, to be successful, the company's should avoid competition in the areas where they are weak.

**Building Core Competencies**

Firms uses the four specific criteria of sustainable competitive advantage to build its core competencies.

**Four Criteria of Sustainable Competitive Advantage**

The four important core competencies are the capabilities which are as follows,

1. Valuable capabilities	Help a firm neutralize threats or exploit opportunities.
2. Rare capabilities	Are not possessed by many others Historical: A unique and a valuable organizational culture or brand name.
3. Costly-to-imitate capabilities	Ambiguous cause: The cause and uses of a competence are unclear Social complexity: Interpersonal relationships, trust and friendship among managers, suppliers and customers.
4. Non-substitutable capabilities	No strategic equivalent.

So, it is very important for the core competencies to be valuable and unique from the point of view of customer and it should also be imitable and non-substitutable from the view point of competitors.

When all the four criterias are satisfied then only sustainable competitive advantage is obtained.

**1. Valuable**

Valuable capabilities, allow the company to take advantage of opportunities and make the threats ineffective in its external environment. A firm creates value for its customers by utilizing the capabilities to take advantage of the opportunities.

**Example**

The former CEO of GE, Jack Welch's built a valuable competence in financial services through acquisitions and by integrating newly acquired business. This also resulted in placing the right person in the right job.

**2. Rare**

Rare capabilities are the capabilities that only a few competitors of the company possess. So, the capabilities which are valuable and which are not common are the source for competitive advantage. Competitive advantage can be obtained only when a company develops and takes advantage of valuable capabilities, that differ from its competitors.

**3. Costly to Imitate**

The capabilities that other firms cannot develop easily are the capabilities that are "costly to imitate". The costly to imitate capabilities are created when a company develops capabilities because of its unique historical culture. The second reason for creating a costly to imitate capability is when the link between the company's capabilities and its competitive advantage is difficult to classify. The third reason is the social complexity. The examples of socially complex capabilities are trust, friendships, among manager and between manager and employees, interpersonal relationships and a firm's reputation with suppliers and customers.

**4. Non-substitutable**

Non substitutable capabilities are the capabilities that do not have substitutes equivalent to a particular strategy. Non substitutable capabilities are an important source of competitive advantage as there will be no capabilities that can be considered as strategically equivalent valuable resource. If there are no substitutes, the strategic value of capability increases.

The examples for the non-substitutable capabilities can be found in Southwest Airlines. The firm's specific knowledge and trust is based on working relationships between managers and non-managerial personnel in this organization. They are difficult to identify and it is very difficult to find a substitute for it.

Thus, from the above, it is clear that the capabilities that are valuable, rare, costly to imitate and non-substitutable creates a sustainable competitive advantage.

**Q24. Explain the concept of competencies with reference to the theory of Prahalad.**

**Answer :**

Organisational competencies are those synergistic effects which are developed when strengths and weaknesses are combined together on the basis of the resources and behaviour. Competencies are the special qualities which are owned by an organisation which help them to withstand the pressures of competition in the marketplace. The capability to make use of the competencies increasingly transforms them into core competencies.

Inspite of the terms competencies, core competencies and distinctive competencies are usually being used as synonymous but still there exists differences among these three out of the three terms core competence gained much popularity and currency. This term was popularised by Prahalad and Hamel as one of the ideas which helps the organisation in the formulation process of a strategy.

C.K. Prahalad and Gary Hamel were greatly credited for building up the dynamic capabilities approach which takes into account the strategic management as a collective learning process aiming at building and then using the distinctive competencies by an organisation which cannot be copied by rivals with the help of the series of publications like the core competence of the corporation (1990) and 'Strategy as stretch and Leverage' (1993) in the Harvard Business Review and a book competing for the future (1994), both of them have been trying to promote the idea of dynamic capabilities. The idea basically lies upon the assumption that the strategy relies upon learning and learning upon in turn depends the capabilities of an organisation.

According to Prahalad and Hamel the competitive advantage can be identified in the core competencies of an organisation. Both Prahalad and Hamel used the analogy of a tree to ascertain the core competencies. According to them, "The diversified corporation is a large tree. The trunk and major limbs are core products, the smaller branches are business units, the leaves, flowers and fruits are end products. The root system that provides nourishment sustenance, and

stability is the core competence". They further explained the core competence as the collective learning in the organisation especially how to coordinate diverse production skills and integrate multiple streams of technologies it is also about "The organisation of work and the delivery of value. It is specifically communication, involvement and deep commitment to working across organisational boundaries. It involves many levels of people and all functions, (and it) does not diminish with use".

Prahalad and Hamel suggested three tests to ascertain the core competence as follows,

- (a) It must be capable enough to give better/full access to a great variety of markets.
- (b) It must contribute significantly to the benefits of the perceived customers of the end product.
- (c) It must not be that easy for the competitors to imitate.

Few examples used by Prahalad and Hamel for determining concept of core competence in the respective organisation are as follows Canon's core competencies lies in optics, imaging and microprocessor controls, Sony's core competencies lies in miniaturisation, in optical media- philip, stick tape f 3 M, and Honda's in engines and power trains.

During the early years of 1990's many Indian companies took into consideration the idea of core competence. But there are few drawbacks about which an organisation must be aware of the way in which core competencies can be developed similarly in the same way they can be lost. The main issue relating to the core competencies is that they have the prospects to make it core rigidities. Further external environment is also held responsible for sudden movement occurrence the events. For example, Nandas of Escorts perceive their core competence in light engineering, NIIT in offering technology-based learning, Reliance Industries in skillful project management and execution and S.Kumar perceives its core competence in textile processing.

### 2.2.2.3 Cost Efficiency

**Q25. Explain in detail about cost efficiency.**

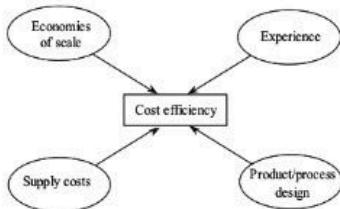
**Answer :**

In any organisation, the most significant strategic capability is to assure that the firm adequately focusses on attaining and enhancing the cost efficiency continuously. For this process, adequate resources and the competences must be available for managing the costs. The customers can obtain the advantages from cost efficiency in terms of lower prices or more product attributes for the same price. But, several organisations in different markets for this concept is becoming a threshold strategic capability for the following two reasons,

(a) The customer do not give importance to the product attributes at any price. When price increases, the customers will be ready to forgo value and select a lower priced product. So, the main challenge is to assure that an adequate value is given at an acceptable price.

(b) The competitive rivalry will force the firms to reduce the costs as the competitors will decrease their costs for making their rivals underprice and offers the same value at lesser price.

The cost efficiency is ascertained with the help of many cost drivers as shown in figure,



**Figure 1: Sources of Cost Efficiency**

### 1. Economies of Scale

The economies of scale is a key source of cost advantage in the manufacturing organisation, as the high capital costs of plant should be recovered over a high level of output. Traditionally, the manufacturing sectors, in which this have played a crucial role are motor vehicles, chemicals and metals. The economies of scale are also significant in distribution or marketing of other industries like drinks, tobacco and food. In other sectors like textiles and leather goods, the economies of scale is of less importance.

### 2. Supply Costs

The supply costs affect the overall cost position of an organisation. The location can affect the supply costs. The supply costs are of great significance to the organisations which serve as intermediaries and the value added through their own activities is less and the need for recognizing and managing input costs is essential for success.

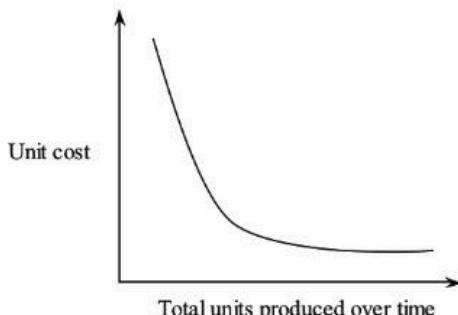
### 3. Product/Process Design

The product/process design also affects the cost position. The efficiency gains in the processes of production have been accomplished by several organisations by making enhancements in capacity-utilisation, labour productivity, yield or working capital utilisation. The main issue in product/process design is gaining the knowledge for comprehending the significance of every single item to maintain a competitive position.

### 4. Experience

In certain situations, the experience acts as an important source of cost efficiency and helps in attaining competitive advantage over rivals. Several studies have been conducted on the relationship between the cumulative experience acquired by an organisation and its unit costs. This is considered as the experience curve and is shown in figure (2). Experience curve states that an organisation which performs any activity learns to do it efficiently only after certain experience and creates core competencies in this activity. As the companies with high level of market share have more cumulative experience, it is very essential to gain and maintain market share. There are key implications about the concept of experience curve which can affect the competitive position of an organisation they are as follows,

- In several markets, growth is not considered as optional.
- The organisations should assume that their real unit costs will reduce after every year.
- The first mover advantage can be crucial. The organisation which moves downwards in the experience curve is capable of decreasing its cost base due to the experience it had acquired/gained over its rivals by standing first.



**Figure 2: Experience Curve**

- The chances of sustained advantage through experience curve benefits are low.
- In competitive markets the continuous reduction in costs is essential for organisations.
- Through outsourcing, it is possible to reduce the costs of the activities in which an organisation does not have any experience but other organisations are more experienced.

#### 2.2.2.4 Capability Building and Management

**Q26.** Discuss organisational capabilities with its types and show the drivers of organisation capabilities.

**Answer :**

*Model Paper-II, Q7(b)*

##### Organisational Capabilities

Capabilities arise as a consequence of integration of resources for performing specific tasks. The basis of organisational capabilities lies in the following,

- (a) Knowledge, skills and distinctive attributes of work force
- (b) Functional expertise of employees.

##### (a) Knowledge, Skills and Distinctive Attributes of Work Force

Human resource plays an important role in handling organisational capabilities and deriving competitive advantages from them. Thus, the knowledge and skills possessed by employees needs to be effectively utilized and shared.

##### (b) Functional Expertise of Employees

Certain employees possess functional expertise in the core areas of business such as research and development and production and marketing. By maintaining effective coordination among these areas enable the organisation to successfully formulate and implement the organisational capabilities. Core competencies that are valuable, costly to imitate and non-substitutable acts as the sources of organisational capabilities.

##### Types of Capabilities

Following are the types of capabilities,

##### 1. Valuable Capabilities

- (i) Valuable capabilities are those capabilities which helps in effective utilisation of external opportunities and eliminating the threats associated with them.
- (ii) They give more importance to the human capital in the organisation.
- (iii) They gain customer satisfaction by giving value to the customers.

##### 2. Rare Capabilities

There are few valuable capabilities that a solely firm possesses and no other competitor has it. They are rare in gaining unique and valuable competitive advantage.

##### 3. Costly to Imitate Capabilities

Imitation of these capabilities is a costly affair. There are three reasons for a firm to develop costly capabilities.

(a) They are as a matter of historical significance of the company's origin, they develop expensive cultures and strategies.

(b) Due to ambiguous relation in firms capabilities and competitive advantage.

(c) Social complexity, wherein capabilities are an amalgamation of social phenomena, costly capabilities are generated that are difficult to imitate.

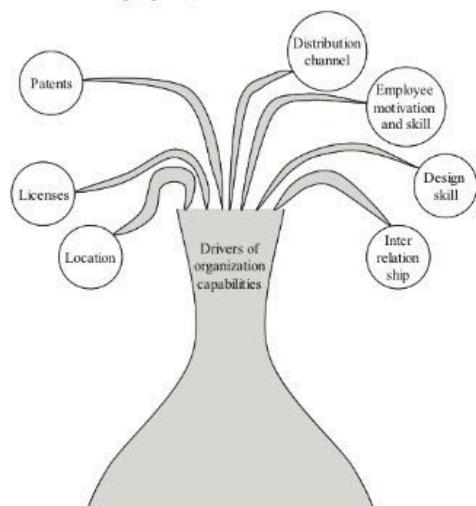
##### 4. Non-substitutable Capabilities

These capabilities cannot be substituted by any other capabilities, hence strategic value of these capabilities is high and allows no substitutions.

These are kept hidden from the competitor's and are codified for safety reasons. These capabilities form to be the firm's unique feature and bear firm specific knowledge and information.

##### Drivers of Organizational Capabilities

The drivers of organizational capabilities are shown in the following figure,



**Figure: Drivers of Organization Capabilities**

**Q27.** What are the methods of analysing and diagnosing the corporate capabilities?

**Answer :**

Corporate capabilities could be analyzed and diagnosed through the two important methods.

1. Functional area profile and resources deployment matrix.
2. Strategic advantage profile.

<p><b>1. Functional Area Profile and Resources Deployment Matrix</b></p> <p>(i) It involves formulation of a matrix consisting of functional areas with common functions.</p> <p>(ii) It deals with the analysis of strategic deployment of funds and the existing strengths and weaknesses when compared with that of competitors.</p> <p>(iii) It also assesses the past, present and future strengths and weaknesses of organisation's policies and strategies.</p> <p>(iv) Analysis is carried out specifically for each activity without integrating it with other activities. Whereas, the relationship between the strengths and weaknesses need to be determined.</p> <p>(v) Impact of identified strengths and weaknesses on the organisational effectiveness.</p> <p>(vi) The evaluation strategists aim to find out their company's strategic position in relation to their competitors.</p> <p>(vii) It also identifies the various external factors influencing the functioning of an organisation.</p> <p><b>2. Strategic Advantage Profile</b></p> <p>Formulation of a strategic advantage profile provides a closer view to all the critical areas which are closely related to the strategic future of an organisation.</p> <p>Minute details about a firm's weakness areas and areas of strengths can be extracted through this profile.</p> <p>Several preventive measures can be applied for solving the futuristic problems and for the formulation of strategies.</p> <p>The SAP technique is also a threat as it directly draws onto conclusions for present strategies.</p> <p>The SAP technique covers internal areas of,</p> <p><b>(a) Marketing</b></p> <p>Examples: Computation of sales/sales status, changes in the preferences and tastes of consumers, personal selling measures and so on.</p> <p><b>(b) Finance</b></p> <p>Example: Profitability ratios, level of credit worthiness, rate of dividends and favourable behaviours of stock markets.</p> <p><b>(c) Production</b></p> <p>Example: Nature of technology, sources of raw materials quality of products.</p> <p><b>(d) Human Resources</b></p> <p>Example: Capability skills of employees, compensation packages.</p> <p><b>(e) Research and Development</b></p> <p>Example: Innovation of technology</p>	<p><b>(f) General Management</b></p> <p>Example: Style of Management</p> <p>These above mentioned areas are critically evaluated to identify their competitive strengths (as positives) and their weaknesses (as negatives). A neutral nature of these areas is represented as 'O', implying a neutral effect on the organisational strategies.</p> <p><b>Q28. Explain how people are managed for capability development and describe the building process of dynamic capabilities.</b></p> <p><b>Answer :</b></p> <p><b>Managing People for Capability Development</b></p> <p>Strategic capability is usually found in the daily routine activities that are undertaken by people in organisations. Therefore, it becomes quite essential to the potential of people to identify the significance of their performance with respect to the strategic capability of the organisation.</p> <ol style="list-style-type: none"> <li>1. Targeted training and development is possible. Usually the companies design common and simple training and development programmes. It is quite essential to target greatly especially on the development of competences which would provide competitive advantage from the strategic point of view.</li> <li>2. HR policies can be used for developing specific competences.</li> <li>3. It is necessary to develop awareness among the people with respect to what they can do matters at the strategic level.</li> </ol> <p>In the rapidly changing conditions, the successful firms are those who have developed the dynamic capabilities in order to continuously readjust the needed competences. This competences is being used for learning and development. The characteristics of learning organisation is of great importance which consists of the following,</p> <ol style="list-style-type: none"> <li>(a) Identifying the importance of intuition of people in the organisation,</li> <li>(b) Conflicting ideas and views must be welcomed</li> <li>(c) Lastly, the experimentation is considered as a norm which has become an important part of the learning process.</li> </ol> <p>Manager is supposed to take into consideration how to safeguard and encourage such behaviour. The manager besides this also takes into consideration the additional activities which are useful in supporting the learning process the way to organize the organization in order to facilitate learning and strategies that organisation must follow to enhance dynamic capabilities. Formal systems usually aims at acquiring only formalised organisational knowledge which acts as the partial basis for achieving strategic capability in dynamic conditions. If the focus is on developing the formal system greatly then they inhibit and constrain more on dynamic capabilities.</p>
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**Process of Building Dynamic Capability**

Nonaka and Takeuchi have argued that innovative companies are those which can alter and increase the individual's knowledge in order to create a "spiral of interaction" among the tacit and explicit knowledge with the help of four processes.

**1. Socialisation**

It is a process wherein experiences are being shared among individuals which helps them to gain tacit knowledge from others without a formal system or the use of any language.

**2. Externalisation**

It is the process wherein tacit knowledge is articulated into explicit concepts. It is very difficult and also needs an integration of several methods.

**3. Combination**

It is the process wherein the concepts are organised into a 'knowledge system'. Individuals acquire this with the help of formal methods of meetings, documents or computer networks.

**4. Internalisation**

It is the process wherein explicit knowledge is embodied into tacit knowledge and is closely associated with "learning by doing".

Managers must be aware of inherent dangers which exists in the current bases of competitive success.

**Q29. Explain the situations in which strategic capabilities are developed.****Answer :**

From the understanding of strategic capabilities it is understood that the most important bases of strategic capability is found in those aspects of the organisation which are difficult to discern or be specific about. Veronique Ambrosin has research explained that it is a source of causal ambiguity and she also argued that it is essential to understand what managers will be able to do and what they cannot do on the basis of their understanding and valuing the bases of strategic capability with respect to causal ambiguity. Few different situations are explained as follows,

**(a) Competencies are Valued but not Understood**

Managers must be having knowledge about the activities and processes in their organisation which would have a positive effect and would also value these activities and processes. But they would not be able to understand how this positive effect increases.

**(b) Competencies are not Valued**

Managers are aware of the activities and processes in the organisation but do not identify their positive effect or value these activities. In this type of situation, there is a real danger of taking wrong course of action by the managers.

**(c) Competences are Identified, Valued and Understood**

This type of situation is quite similar to the result of analysis of plasco. In this situation, managers would be capable of nurturing and developing these competences.

There may be some more other situations wherein decisions and actions relating to the development of strategic capabilities are taken from within the organisation and through the external development.

**1. Extending Best Practices**

It may be possible that the management can determine the strategic capabilities in one area of business and customer service in few of the geographic business units of a global company which are available in business units. Hence, management can try to extend such best practice across all the business units. The abilities of one part of an organisation may not be easily transferred to the other part because of the managing change issues.

**2. Adding and Changing Activities**

Whether the activities can be added or the prevailing activities can be changed in order to make them more reinforcing of results which they delivered against critical success factors.

**3. Streching Competences**

Managers would also look out for the opportunity in order to develop new products or services apart from the prevailing competences.

**4. Building an Apparent Weaknesses**

According to a research by Danny Miller it was highlighted that the firms undergo the situations wherein it is not possible for them to match and beat the strategic capability of rivals. As a result, they develop competitive advantage by developing the valueless resources or activities of the past.

**5. Ceasing Activities**

The activities which are performed but are not that much essential in delivery of value to customer must be then outsourced. It helps in reducing cost of the company offers lower prices to the customer and also minimizes the amount of time which is spent by the people in an organisations on activities that does not give any customer value.

**6. External Capability Development**

There are different ways of developing capabilities by searching/finding out externally. Firms enter in alliances and joint ventures for the purpose of learning new ways of doing things and to acquire new skills and competencies.

**SHORT QUESTIONS AND ANSWERS**

**Q1.** Write a short note on cost efficiency and core competencies.

**OR**

**What is meant by core competency?**

(Model Paper-II, Q3 | May/June-16, Q1(d))

(Refer Only Topic: Core Competencies)

**OR**

**Core Competencies**

(Refer Only Topic: Core Competencies)

**Answer :**

(May-13, Q1(c) | April-15, Q1(c))

**Cost Efficiency**

One of the important strategic capability in any organization is to make sure that efforts are made to improve the cost efficiency continuously. It require both resources and competences to manage costs. Cost efficiency benefit the customers by providing low price or more product features at same price. The sources of cost efficiency are economies of scale, experience, supply costs and product /process design.

**Core Competencies**

The ability of the organization to carry out its operations extremely well in comparison to its competitors is its core competence. The strategic leaders help in identifying the unique strengths of the organization which distinguishes their organization from others in the industry. Core competence helps the organizations to gain competitive advantage over their competitors. The strategies dealing with core competencies also have greater chance of improving the organizational performance.

**Q2.** Write briefly about value chain analysis and industry analysis.

**OR**

**What is value chain analysis?**

(Model Paper-I, Q2 | May/June-12, Q1(d) | May/June-16, Q1(e))

(Refer Only Topic: Value Chain Analysis)

**OR**

**Value Chain**

(Refer Only Topic: Value Chain Analysis)

April/May-14, Q1(e)

**OR**

**Industry Analysis**

(Refer Only Topic: Industry Analysis)

**Answer :**

April/May-14, Q1(d)

**Value Chain Analysis**

The value chain analysis deals with the activities which enhances the capabilities and economic performance of the firm. It describes the activities needed for creating value of products or services for the customers. With the help of value chain, the managers can ascertain the weaknesses and strengths of each activity of the firm in comparison to its competitors. The value analysis is also called as value engineering.

**Industry Analysis**

A group of firms which are involved in producing the same or similar type of principal product is termed as industry. Industry analysis facilitates to analyses the strengths and weaknesses of a firm in relation to its competitors in the industry. It reveals the structural realities of a specific industry and the level of competition existing in a particular industry.

**Q3.** Explain briefly about political environment and socio-cultural environment.

**OR**

**Political Environment**

(Model Paper-III, Q4 | April/May-14, Q1(c))

(Refer Only Topic: Political Environment)

**OR**

**Socio-cultural Environment**

(Refer Only Topic: Socio-cultural Environment)

**Answer :***May-13, Q1(d)***Political Environment**

Business growth depends on the political environmental factors. If the environment is conducive then only will the business flourish. There is always an element of risk associated with these political factors. Risk could be in terms of the type of government in power and its business policies, perception in matters of foreign investment and how it regulates the market. The business organisation therefore has to keep in mind the political aspect while making a foray into the market.

**Social-cultural Environment**

The social and cultural factors directly affect the attitudes of individuals, consumer and business behavior. The organisational operations are affected by the social trends, changes in education or the attitudes to work and leisure and the changing expectations. Usually, the firms do not operate as a closed system, instead they operate as a open system which is influenced by the changes that exists within its external environment. The values of an organisation are basically build by the ethics and standards which signifies the society. The attitudes and behavioural patterns are build on the basis of the ethical and moral standards.

**Q4. Explain environmental scanning and environmental monitoring.****OR****Environmental Scanning***(Refer Only Topic: Environmental Scanning)***Answer :***April/May-11, Q1(d)***Environmental Scanning**

Environmental scanning refers to a practise of monitoring and analyzing a company's marketing environment for the identification of opportunities and threats. The result of environmental scanning provides assistance to the manager in deciding where to compete, how and also on what to compete.

**Environmental Monitoring**

The environmental monitoring monitors the evolution of environmental trends, series of events or sequences of activities. But these aspects are not involved in the environmental scanning process. A firm may come across these aspects either eventually or by the trends which were brought to its attention from outside the firm. The environmental scanning provides information about the trends, which needs close monitoring and closer evaluation. The process of monitoring helps the firm to analyze how drastically the environmental trends are changing the competitive perspective.

**Q5. Macro-environment****Answer :***May/June-12, Q1(c)*

Macro environment includes, economic and non-economic factors which influences the business activities and those which provides information regarding the various opportunities so as to promote their business.

The role of macro environment from the business point of view may be both positive and negative. This implies that the larger forces in the company's environment do not always provide wider space for business opportunities. They often impose constraints on the business activities on the firm.

The macro environment can be broadly classified into economic environment and non-economic environment. Despite the fact that it is an economic activity business is effected by its non-economic environment. Some factors which contribute towards the non-economic environment are as follows,

1. Political system
2. Ideology government
3. Legal framework
4. Social system
5. Cultural values
6. Demographic factors
7. Level of technological development
8. Natural and physical environment.

## **INTERNAL ASSESSMENT**

## I. Multiple Choice

**II. Fill in the Blanks**

1. \_\_\_\_\_ is a group of firms producing the same principal product.
2. The organisations which produce similar products/services and aims at the same customer group are known as, \_\_\_\_\_.
3. In AD little model, \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ are the four steps in product life cycle.
4. SBU are classified as \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_.
5. \_\_\_\_\_ are the activities that support competitive advantage and are difficult for the competitors to imitate or obtain.
6. \_\_\_\_\_ are those favorable conditions in a firm's environment which help the firm in strengthening its position in the market.
7. The general electric approach is also called as \_\_\_\_\_.
8. \_\_\_\_\_ involves surveillance of a firm's external environment to predict the environmental changes to come and to detect changes already under way.
9. Value analysis is also called as \_\_\_\_\_.
10. \_\_\_\_\_ analysis aims to relate the strengths and weaknesses of the organisation based on an internal audit of the firm's capabilities against the opportunities and threats thrown up by the analysis of the external environment.

**KEY****I. Multiple Choice**

1. (b)
2. (c)
3. (b)
4. (d)
5. (a)
6. (d)
7. (c)
8. (b)
9. (d)
10. (a)

**II. Fill in the Blanks**

1. Industry
2. Competitive Rivals
3. Embryonic, Growth, Maturity and Ageing
4. Stars, Cash Cows, Question Markets and Dogs
5. Core competencies
6. Opportunities
7. Strategic Business Planning Grid
8. Environmental Scanning
9. Value Engineering
10. SWOT.

**III. Very Short Questions and Answers****Q1. Define Environment.****Answer :**

The environment refers to the surroundings, external objects, influences or circumstances in which someone or something occurs.

---

**Q2. What is SWOT Analysis?****Answer :**

SWOT analysis is a technique used for identifying the company's strengths, weakness, opportunities and threats. It determines the firm's strategic position by considering whether or not the present strategy of the firm is capable of dealing with the changes taking place in the business environment.

---

**Q3. What are the different Economic Factors?****Answer :**

Business depends on the economy of a country, Economic factors are infrastructure per capita income, money supply, price level, employment generation, propensity to consume, etc.

---

**Q4. Write short note on BCG Approach.****Answer :**

BCG approach is also called as growth share matrix. It is portfolio planning method that evaluates a company's strategic business units in terms of their market growth and relative market share.

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**Q5. Explain briefly about Micro Economic Environment.****Answer :**

The macro economic environment of any business includes those players and factors which have a direct impact on the operation of the companies.

## **UNIT**

# **3**

## **Strategy Formulation and Sustenance**

### **LEARNING OBJECTIVES**

After studying this unit, one would be able to understand,

- ❖ Process of Strategy Formulation.
- ❖ The Formulation of Business Level Strategy.
- ❖ Creation and Sustainability of Competitive Advantage.
- ❖ Generic Strategies and Choice Based Strategies.
- ❖ Stage of Industry Life Cycle with Strategies.
- ❖ Different Strategies that Best Fits Specific Industry and Company Situations.

### **INTRODUCTION**

Strategy formulation should be done very carefully because while executing the formulated strategy, problems should not take place. Strategy formulation includes various steps. Strategy formulation at the business unit level helps in recognizing the organizational primary goals and objectives, thereby it would equally focus on the complete organisation.

Firms follow different methods in order to create competitive advantage and sustaining the competitive advantage basically depends upon the durability and inimitability of firms' core competencies.

The different types of generic strategies includes the low cost provider strategies, differentiation strategies, best cost provider strategies, focused or market niche strategy.

The industry life cycle includes four stages (i) Introduction (ii) Growth (iii) Maturity and (iv) Decline.

The different strategies that best fits in the specific industry and competitive situations incorporate the strategies for competing in emerging industry, maturing industries, stagnant or declining industries, fragmented industries, strategies for industry leaders, runner-up firms, weak and crisis business.

### 3.1 STRATEGY FORMULATION

**Q1. Define strategy and explain how strategy is formulated.**

**Answer :**

*Model Paper-I, Q8(a)*

#### **Strategy**

A strategy acts as a source for attaining the objectives. A strategy is an amalgamated or integrated plan which helps in connecting all the components of an organisation together. A strategy is a comprehensive plan wherein all the components of a plan are consistent with each other and joins together effectively.

Thus, a strategy is a unified, comprehensive and integrated plan which associates the firms strategic advantages with the environmental challenges.

#### **Strategy Formulation**

Strategy formulation should be done very carefully because while executing the formulated strategy, problems should not take place. Strategy formulation includes various steps. Strategy formulation at the business unit level helps in recognizing the organizational primary goals and objectives, thereby it would equally focus on the complete organisation.

The following are the steps involved in the strategy formulation,

##### **1. Defining the Company Mission**

Defining the mission includes some aspects like, basic product/service, primary market, principal technology, company goals, survival, growth, profitability, company philosophy, public image etc.

##### **2. Assessing the Environment**

A clear study of environment is conducted and identify the remote and operating environment.

##### **3. Industry Analysis**

Industry analysis include the following factors,

- (i) How competitive forces shape strategy?
- (ii) Threat of Entry, Powerful suppliers and Buyers
- (iii) Substitute products etc.

##### **4. Evaluating the Multinational Environment**

The multinational environment is evaluated for understanding the following factors,

- ❖ Why companies internationalise?
- ❖ Complexity of the multinational environment
  - (a) Control problems of the multinational firm
  - (b) Multinational strategic planning
  - (c) Multi domestic industries and Global industries.

##### **5. Environmental Forecasting**

Environmental forecasting is done to,

- (i) Select the critical environmental variables
- (ii) Select the sources of significant environmental information
- (iii) Evaluate forecasting techniques
- (iv) Integrate forecast results into the strategies management process
- (v) Monitor the critical aspects of managing forecasts.

##### **6. Internal Analysis of the Firm**

Internal analysis of the firm includes,

- (i) Development of the company profile
- (ii) Identification of strategic internal factors and
- (iii) Evaluation of strategic internal factors.

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## UNIT-3 STRATEGY FORMULATION AND SUSTENANCE

3.3

### 7. Formulating Long-term Objectives (Strategies)

It includes framing the strategies for,

- (i) Profitability
- (ii) Productivity
- (iii) Competitive position
- (iv) Employee development
- (v) Employee relations
- (vi) Technological leadership and
- (vii) Public responsibility.

## 3.2 BUSINESS LEVEL STRATEGY

### Q2. Discuss the steps involved in strategic planning process implemented at business unit level.

**Answer :**

Corporate strategy level involves a long period by the top management. It helps in identifying organisational primary goals and objectives so that emphasis can be laid onto the whole organisation.

Figure below shows the strategic planning process at business level.

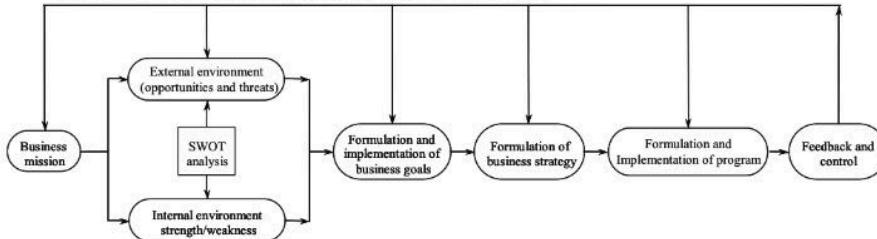


Figure: Strategic Planning Process Implemented at Business Unit Level

### Steps of Strategic Planning Process

When organisations are done with corporate planning they move ahead for business unit level planning which originates from the corporate plan. The business unit level strategic planning involves six steps as follows,

#### 1. Deciding on the Business Mission

As SBUs are operating in different market conditions, business mission needs to be established by considering both the overall corporate mission and objectives of the firm. Business mission must represent its motive of existence into business and about its role.

#### 2. Performing SWOT Analysis

SWOT analysis is conducted by the firm to evaluate strength, weakness, opportunity and threat of each and every business unit. Strengths and weakness analysis is done to analyse the internal strengths of the firm. Whereas, opportunity and threat analysis is done to analyse the external environment.

##### (a) External Environment Analysis (Opportunities and Threats)

Both macro and micro environmental factors are analysed and monitored in the external analysis. Through such analysis, both potential opportunities and threats of the firm can be identified so as to optimally exploit the opportunities and to overcome threats. Market opportunity analysis is applied in determining the market attractiveness and probability of success of the opportunity.

##### (b) Internal Environment Analysis (Strengths and Weaknesses)

Internal evaluation is performed to be aware about the resources, behaviour, strengths, weaknesses, synergistic effects and distinctive competencies. It is an evaluation of the internal capability of the firm which can be optimally utilized for the exploitation of existing opportunities and for opposing the external threats of an environment.

## **STRATEGIC MANAGEMENT**

**3.4**

### **3. Formulation and Implementation of Business Goals**

The step ahead of the SWOT analysis involves the formulation of realisable and measurable goals for the business. Such goals are used to explain the objectives of business related to its marketing expenditure for a particular period of time. Achievement of a desired market share, profit, sales and level of reputation are some of the business goals.

### **4. Formulation of Business Strategy**

The long-term goal directed actions are usually referred to as a "strategy". An appropriate strategy is selected by considering the strengths and goals formulated for the business unit. Goals indicate what is to be achieved whereas, strategy represents the courses of action taken to achieve these goals.

According to Michael Porter, Firms can follow three different generic strategies for the accomplishment of organisational goals. They are cost strategy, differentiation strategy and the focus strategy.

### **5. Formulation and Implementation of Program**

After the business unit planning, the marketing manager needs to prepare comprehensive supporting programs. These programs need to be functional plans that are helpful in the implementation of strategies. Marketing managers must prepare a marketing plan which involves cost estimates, allocation of budget and investments related to a specific program. When program is implemented, it specifies the structures, responsibilities and role of every member of an organisation.

### **6. Feedback and Control**

The final step in strategic planning process is to assess and analyse the entire process at different points of time. Feedback is useful for the determination of the market response towards the effectiveness of marketing strategy. The entire planning process can be controlled by several methods such as, cost control, performance control and adaptability control.

#### **Q3. Discuss business level strategy in detail.**

**Answer :** *May-13, Q4(a)*

#### **Business Level Strategy**

The term business level strategy refers to the managerial decisions and actions pertaining to a single business unit. In other words, it is the management's gameplan for a single business unit. The main aim of this strategy is to make the business unit competitive in the market. This strategy provides answer to question like, how can the business unit made more competitive?

Business level strategy determines the way in which the firm can successfully compete in specific markets or the way in which it should provide effective services in the public services. This depends on the products or services which are developed in the markets and low competitive advantage can be gained by the firm to accomplish the objectives of the organisation (i.e., the long-term profitability or market share growth). In the business-level strategy, the strategic decisions are associated with the Strategic Business Unit (SBU).

A strategic business unit is considered as a part of an organisation where there is a different external market for goods or services which is different from another SBU. In order to provide assistance to the business-level strategies, the strategies at an SBU level must be linked with the strategies at the corporate-level. SBU is considered as a unit of an organisation which is developed for strategy making purposes.

#### **Purpose of Business Level Strategy**

The business level strategy is basically formulated for either of the two important purposes. Firstly to minimise the overall cost and secondly to differentiate products from competitors' products. The main aim is to gain an advantage over competitors operating in markets. In order to fulfill the goal of business level strategy firms has to perform different operations or they should perform operations in different manner. The most important aspect is, to ensure the effective integration of all related activities creating a unique or supervise value.

Minimization of cost can be done through use of various costs-reduction concepts or by achieving economies of scale. As a result it should be possible to acquire larger market share. But cost minimization is useful only in the markets where consumers are price conscious. For differentiating products from that of competitors' products, firms might go for concepts such as creating brand image, innovative designing, reengineering business processes etc., product differentiation would be highly beneficial to firms, where the consumers for products are loyal and are ready to pay high prices for superior quality and design.

#### **Examples of Organization who Successfully Implemented Business Level Strategy (BLS)**

1. Southwest Airlines in its BLS, effectively integrated its operational activities for gaining cost leadership and differentiation advantage. Its integration of activities played a key role in earning substantial profits periodically to the organisation. Southwest has integrated its activities into six strategic themes. Other airlines such as Metrojet subsidiary, United shuttle, Continental lite etc., tried to imitate southwest strategy. But they failed to provide unique experience and customer services.

**UNIT-3 STRATEGY FORMULATION AND SUSTENANCE**

3.5

2. Nike is an other example, which in its BLS, successfully differentiated its products on the basis of perceived quality and built a strong brand image through distinctive marketing and advertising strategy. The company made agreement with "Tiger Woods" the golf superstar, for promoting Nike products in golf industry. The company consciously focussed upon big events such as Olympics and World Cup for strengthening its brand image.

**3.3 CREATING AND SUSTAINING COMPETITIVE ADVANTAGES**

**Q4. What is competitive advantage? Explain the significance of competitive advantage.**

**Answer :****Competitive Advantage**

Competitive advantage represents the superior position enjoyed by a firm with respect to its certain functions or factors or activities when compared to its competitors.

This superiority enables the firm to occupy suitable position in its respective industry and this superiority can be in terms of anyone of large number of functions or activities undertaken by the firm i.e., the firm can attain the competitive advantage in various ways.

For instance, Few firms are specialized in performing manufacturing activities whereas, the others may be possessing advanced technology. Such specialization may be associated with the various features of a given function.

Firms strengths are found to be emanating from various reasons.

**Example**

The manufacturing firm achieves competitive advantage due to various reasons like,

- (i) The firm may be efficient or effective in performing the manufacturing activity rather than its competitors.
- (ii) It may possess good manufacturing equipment.
- (iii) It may be able to undertake the flexible manufacturing processes and systems.

Generally, the large-scale undertakings have superiority in terms of size whereas the small firms are characterized by its flexibility features.

The term superior it represents the capacity of a firm in performing certain functions or activities in a unique and distinctive manner. Mostly, the firms put efforts to provide a distinguished products so that the customers can be attracted easily and hence gain a competitive advantage.

The firm may have competitive advantage in performing several tasks or activities such as production, marketing, finance new product launch, brand management etc., over its competitors. The competitive advantage also incorporates the resource and capability dimension technology etc.

**Significance of Competitive Advantage**

Competitive advantage is closely related to the firms strategy and it acts as a fit between the firm and its strategy. Both of them go hand-in-hand and cannot exist without maintaining assistance and cooperation between them.

1. If the firm does not have any suitable competitive advantage then it is not able to implement the selected strategy.
2. Lack of major sources for gaining competitive advantage for the execution of the strategy leads to the failure of even a well designed strategy in the firm.
3. Strategy and competitive advantage are closely associated with one another. If the firm has an effective and efficient strategy then it can attain its competitive advantage thereby leading to the execution of its strategy.
4. Without competitive advantage, it may not be possible for the firm to attain its corporate objectives. The successful strategy of any firm is constructed based on its method of competitive advantage.
5. A strong and continuous competitive advantage helps the firm to win the completion and also to protect itself against competition.
6. Competitive advantage also helps the firm to optimally and successfully exploit its opportunities and to avoid threats and risks.

In simple firms competitive advantage acts as the "heart of strategy".

**Q5. How do companies build or acquire competitive advantage?**

**Answer :**

Competitive advantage can be build or acquired by following the below mentioned steps,

**1. Incorporating Competitive Advantage as an Essential Aspect of Corporate Strategy**

Any corporate which is desiring for the attainment of competitive advantage is required to integrate competitive advantage as an essential constituent of the corporate strategy. Corporate strategy acts as a major source for the achievement of competitive advantage over their rival firms.

Strategy and competitive advantage both are dependent on each other i.e., competitive advantage acts as a base on which corporate strategy works, while on the other hand it is the corporate strategy which creates/enable the corporates to attain the competitive edge over the other competitors. By formulating corporate strategy, strategic actions and decisions can be made. Such actions if implemented properly enable the firm to gain competitive advantage.

**3.6**

It can be attained through mergers and acquisitions, establishment of strategic alliances, undergoing partnerships with respect to technology and its advancement.

**2. Analysis of Internal Areas and Industry Competition**

By analysing the internal areas and industry characteristics, appropriate strategy could be formulated. For sizing up the competitive advantage, firm needs to analyze and compare their strengths and weaknesses with that of its competitors. Because, by analysing the distinctive features such as, market share, customer service, brand value and satisfaction levels, firms are able to determine its position in the markets. This determination helps the firm in strengthening its market position by adopting various strategies.

**3. Benchmarking – Tool for Building Competitive Advantage**

The process of evaluating the performance of a firm against the standards/test practices adopted by the competing firm is known as benchmarking. It acts as an effective tool through which achievement of high levels of competition becomes possible.

Benchmarking is defined as a, "process of measuring the performance of an organization against the best in class companies, finding out the way in which the best-in-class companies attain those performance levels and making use of this information as a basis for setting the organizational targets, strategies, policies and implementation. In other words, it is a process of adopting the world-class best practices" which are being followed by the successful and best-in-class companies.

The benchmarking process not only helps the firm in identifying its own strengths and weaknesses but also helps in the identification of the best-in-class companies, strengths and weaknesses so that the best practices can be implemented in their own operations. The best practices of the 'best-in-class' companies are usually identified by customers or the industrial experts. These benchmarking practices help in increasing the production level by making effective use of technology and manpower.

**Types of Benchmarking**

Benchmarking is classified into three types which are as follows,

- (i) Performance benchmarking/Operational benchmarking
- (ii) Process benchmarking/Functional benchmarking
- (iii) Strategic benchmarking.

**4. Adoption of Value Chain Approach**

The concept of value chain was proposed by Michael E. Porter. It is an aggregate of primary and secondary activities that are functioning interdependently and closely for creating a vast matrix of value creating activities.

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For gaining competitive edge over the competitors, it is based on the value that firm is able to create for its customers than that of the competitors 'value' refers to any form of benefits (tangible or intangible benefits created by the firm that are appreciated by its customers. Example Offering quality products at low price than their competitors, providing quantity discounts on bulk purchases, maintaining good ambience in restaurants and hotels, all these attributes constitute value in the eyes of customers.

Firms need to analyze the value-creating activities of the rival firm so as to get the insight about the strengths and weaknesses of its rival firm. Once they are identified, it becomes easy for the firm to compare its position against the competitors, based on which improvement measures can be taken.

While analysing the competitors value chain, firms get awareness about the areas of excellence which it is lacking and can be used as "benchmark standards" for cutting down its cost and for improving its performance.

**Q6. Discuss about the sustainability of competitive advantage at business level.****Answer :**

It is not possible for a firm to sustain its competitive advantage just by using its available resources and capabilities. The two features which ascertains the sustainability of a firm's core competencies are,

- (i) Durability
- (ii) Imitability.

**(i) Durability**

Durability refers to the rate at which the firm's basic core competencies (i.e., its resources and capabilities) depreciate or become obsolete.

Generally, the advancement in technology makes the existing core competencies of the firm obsolete or outdated.

For instance, introduction of DVD players made the CD players outdated.

**(ii) Imitability**

Imitability refers to the rate at which the firm's basic core competencies i.e., its resources and capabilities are copied by others.

The competitor makes several efforts like reverse engineering (i.e., purchasing the competitor's product to understand how it works), hiring employees of the competitor and outright patent infringement for initiating the firm's activities.

A firm's core competency can be easily initiated if it is transparent, transferable and replicable.

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3.7

#### (a) Transparency

Transparency means the speed with which the other firms understands the relationship of resources and capabilities which strengthens the successful firm's strategy.

#### (b) Transferability

It is the competitor's capability to collect resources and capabilities which are needed to overcome the competition in the market.

#### (c) Replicability

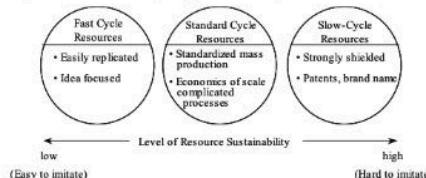
It is the competitor's capacity to duplicate the resources and capabilities and uses them for imitating the success of other firms.

If the firm's core competencies are developed from explicit knowledge then the competitor can easily learn and imitate them as they are easily understandable and communicated.

Whereas if the firm's knowledge is developed from the knowledge then the competitors cannot copy them easily as they are based on employees experience and are firmly established in a corporation's culture. As tacit knowledge is difficult to initiate, by the competitors, it is highly valuable and can lead to the sustainable competitive advantage.

The firm's competency can be effective when its knowledge is complicated and integrated with the other type of knowledge in such a way that even management is also not clear about the competency structure.

The organisation can continue the use of its resources and capabilities, if they are durable and cannot be imitated by the competitors. This continuum of sustainability is represented in the figure given below,



**Figure**

In the above figure, the slow cycle resources at one end are sustainable as they covered/protected by patents, brand names, geography or tacit knowledge. They are core competencies as they offer sustainable competitive advantage.

The other end represents fast cycle resources, which are easily imitated as they rely on the concept or technology which can be easily imitated.

#### Q7. Explain the criteria involved in developing sustainable competitive advantage.

**Answer :**

#### Core Competencies

The capabilities that can be employed as a source of competitive advantage for a firm over its competitors are referred as 'Core Competencies'. The core competencies reflects the personality of a company and differentiates the company from its competitors. They, are the most important elements of a company and company performs these activities especially well, when compared to its rivals. These activities adds a remarkable value to the company's goods or services over a long period of time.

#### Example

The company 'Microsoft' has a huge amount of cash in hand and it is able to purchase all the essential things and can hire skilled workers required to manufacture products that produces high customer value.

To be successful, the company's should avoid competition in the areas when they are weak.

#### Building Core Competencies

Firms uses the four specific criteria of sustainable competitive advantage to build its core competencies.

#### Four Criteria of Sustainable Competitive Advantage

The four important core competencies are the capabilities that are,

1. Valuable
2. Rare
3. Costly to imitate and
4. Non substitutable.

So, it is very important for the core competencies to be valuable and unique from the point of view of customer and it should also be imitable and non-substitutable from the view point of competitors. When all the four criterias are satisfied then only sustainable competitive advantage is obtained.

#### 1. Valuable

Valuable capabilities, allow the company to take advantage of opportunities and make the threats ineffective in its external environment. A firm creates value for its customers by utilizing the capabilities to take advantage of the opportunities.

#### Example

The former CEO of GE, Jack Welch's built a valuable competence in financial services through acquisitions and by integrating newly acquired business. This also resulted in placing the right person in the right job.

**2. Rare**

Rare capabilities are the capabilities that only a few competitors of the company possess. So, the capabilities which are valuable and which are not common are the source for competitive advantage. Competitive advantage can be obtained only when a company develops and takes advantage of valuable capabilities, that differ from its competitors.

**3. Costly to Imitate**

The capabilities that other firms cannot develop easily are the capabilities that are "costly to imitate". The costly to imitate capabilities are created when a company develops capabilities because of its unique historical culture. The second reason for creating a costly to imitate capability is when the link between the company's capabilities and its competitive advantage is difficult to classify. The third reason is the social complexity. The examples of socially complex capabilities are trust, friendships, among manager and between manager and employees, interpersonal relationships and a firm's reputation with suppliers and customers.

**4. Non-substitutable**

Non substitutable capabilities are the capabilities that do not have substitutes equivalent to a particular strategy. Non substitutable capabilities are an important source of competitive advantage as there will be no capabilities that can be considered as strategically equivalent valuable resource. If there are no substitutes, the strategic value of capability increases.

The examples for the non-substitutable capabilities can be found in Southwest Airlines. The firm's specific knowledge and trust is based on working relationships between managers and non-managerial personnel in this organization. They are difficult to identify and it is very difficult to find a substitute for it.

Thus, from the above, it is clear that the capabilities that are valuable, rare, costly to imitate and non-substitutable creates a sustainable competitive advantage.

**3.4 GENERIC STRATEGIES****Q8. Explain generic strategies in detail.****Answer :***April/May-14, Q4(a)*

There are four types of generic strategies. They are,

**1. Cost Leadership Strategy/Low Cost Provider Strategy**

For answer refer Unit-III, Page No. 3.8, Q.No. 9.

**2. Differentiation Strategy**

For answer refer Unit-III, Page No. 3.11, Q.No. 13.

**3. Focussed Strategy**

For answer refer Unit-III, Page No. 3.13, Q.No. 17.

**4. Best Cost Provider Strategy**

For answer refer Unit-III, Page No. 3.14, Q.No. 18.

**3.4.1 Cost Leadership Strategy/Low Cost Provider Strategy****Q9. Write in detail about cost leadership strategy.****Answer :****Cost Leadership Strategy/Low Cost Provider Strategy**

Cost leadership strategies are used by the companies so as to gain a position of "low cost producer" within the industry. A company following the cost leadership strategy is required to simultaneously serve the multiple market segments so as to achieve cost advantage over other companies of the same industry.

Firms, following such strategies usually market and sell standard, simple and basic products without adding extra features to them as they can be easily acceptable in the markets. Their main focus is to achieve cost advantage without incurring much expenses on technology packaging, promotion, distribution and even on after sales service. Thus, a low-cost producer should not take up those activities-practices that results into the rise of the cost overheads of the firm. Instead they can opt for those practices which would lead to the economics of scale, in the long-run.

The strategy of low-cost leadership is not adequate under the following circumstances,

- (a) The competitor fixes the prices of the same rate as the firm does.
- (b) Changes in technology that leads to changes in the tastes and preferences of the customers, occurs rapidly.
- (c) A firm loses an opportunity of differentiation. Differentiation opportunity refers to the provision of price discounts necessary to achieve cost advantage.
- (d) Customer prefers the competitor's products over the firm's products because of technology, features or service.
- (e) There exists other firms who are offering their products and services at much lower cost.

The low-cost strategy adopted by a company to attract the huge group of customer's should not be made so simple which can be easily copied by the competitors, because if it happens the company can no longer achieve the profits.

Any company has two alternatives for the conversion of their low cost advantage into the profit maximizing opportunities thereby attaining competitive superiority over their rivals.

- (i) To deploy lower price strategy to underprice competitors and fascinate large number of price-sensitive customers and thereby increase the profits. This helps to maintain the price cut smaller than that of the size of the firm's cost advantage or to have sufficient production to enhance the total profits inspite of lower profit margins.

### **UNIT-3 STRATEGY FORMULATION AND SUSTENANCE**

**3.9**

(ii) To hold the prevailing price, be satisfied with existing market share and use lower cost to obtain higher profit margin on each unit sold and hence increasing the firms total profits and overall return on investment.

#### **Major Reasons for the Attainment of Cost Advantage**

Any firm can attain a cost advantage, if its cumulative costs across all the activities of its value chain are lower than the costs of competitors. A firm adopting a low-cost produces strategy attains competitive advantage in two ways.

1. Improving the efficiency of their value chain activities and in controlling the factors which increases the cost burden of value chain activities i.e., by controlling the cost drivers.
2. Revamping the firm's overall value chain to remove certain cost-producing activities i.e., by the elimination of unnecessary activities, cost overheads could be considerably reduced.

#### **Q10. Discuss the cost controlling drivers.**

##### **Answer :**

There exists nine significant cost drivers, which are responsible for influencing the company's costs at each activity of value chain. The cost drivers include,

##### **1. Economics or Diseconomics of Scale**

The costs of a specific value chain activity are generally depends on economics or diseconomics of scale. Economics of scale is seen when the activities can be executed more cheaply at larger volumes rather than smaller volumes such that the overhead costs such as R&D and advertising costs can be distributed over a large sales volume causing the per unit cost to decline.

##### **2. Learning Curve Effects**

Learning curve economics can emerge by removing errors and mastering or efficiently using the newly introduced technologies, identifying the methods to bring improvements in the plant layout and work flows, thereby altering the product design which in turn leads to the streamlining of the assembly process. Speed and knowledge can be continuously gained through the establishment of new plants, new retail outlets and distribution centers. Forcibly managed low cost providers pay a careful attention to seize the benefits of learning and experience.

##### **3. The Cost of Important Resource Inputs**

The cost of executing value chain activities mainly depends on the ability of a firm to pay for important resource inputs. This cost needs to be low when compared to the cost incurred by all the competitors in acquiring the resources. This acts as an important aspect in gaining a competitive advantage because firms tend to purchase the materials from various suppliers.

The cost of acquiring the raw materials is a function of four factors, i.e., union versus non-union labour, bargaining power of suppliers, locational variable, awareness and expertise supply chain management.

#### **4. Links with Other Activities in the Company or Industry Value Chain**

If the cost of one activity is influenced by the performance of the other activities, then the costs can be effectively managed downward by assuring that the linked activities are executed cooperatively and coordinately.

The research and development cost associated with new product developments can be managed by establishing cross functional task force that are responsible for executing the work related with R&D, product design, manufacturing plans and market launch. Links with forward channels, emphasizes mainly on the location of warehouses, materials handling, outbound shipping and packaging.

Cost reduction can be achieved at each activity of a value chain through effective coordination.

#### **5. Sharing Opportunities with Organizational or Business Units within the Enterprise**

Various departments of an organization or product lines within an enterprise generally uses the same order processing and customer billing systems, same sales force team to invite the customers, warehouse facilities and distribution facilities or depend upon a common customer service and technical support team. Huge cost can be saved by integrating the similar activities across the subdivisions of a single department.

Sometimes, knowledge acquired by one division can help to reduce the costs in the other division of either the same department or the other department thereby leading to cost savings.

#### **6. The Benefits of Vertical Integration Versus Outsourcing**

Through vertical integration, bargaining powers of suppliers or buyers can be considerably reduced. Vertical integration [forward or backward] helps in attaining high cost savings by a firm to execute various activities of the industry value chain.

Outsourcing is cheap, as it involves appointing outside specialists to execute certain functions and activities, which can be much more efficiently performed by them than by any other employee. Even, the costs associated in performing such functions can be reduced to a great extent.

### 3.10

### STRATEGIC MANAGEMENT

**Q11. When can a low cost provider strategy functions at its best?**

**Answer :**

A low-cost provider strategy functions at its best in the following situations,

**1. When Price Competition between Rival Sellers is Dynamic**

Low cost providers can effectively compete aggressively based on the price, by selling at lower price for acquiring unit sales and market share, from the competitors and attaining profits by facing strong price competition and by withstanding the price wars.

**2. When the Products of Competitors are Essentially Similar and Supplies are Readily Available from any of the Many Excited and Motivated Sellers**

Price competitions exist when the commodities are similar or when the commodities are supplied in excess quantities. In such situations, the profits of inefficient and higher cost companies are decreased.

**3. When Certain Methods are used for Attaining Product Differentiation Which is Valued by Buyers**

When the buyers are least concerned about the products brand, then they focus on the prices of different brands and selects the product which can be obtained at low price.

**4. When Many Buyers Utilizes the Product in Similar Manner**

A standardized product having low selling price can fulfill the requirements of similar buyers, but its features or quality cannot fulfill their needs.

**5. When Buyers Incur Lowcosts for Changing their Purchases from One Seller to Another Seller**

Low switching costs help the buyers to change their purchases towards the lower priced sellers providing equally good quality products or reasonably priced substitute products.

A low cost leader is in a best position to use low price for persuading the customers towards his brand and not towards the competitor's brands or substitutes.

**6. When there are Many Buyers having Higher Power to Bargain Down Prices**

Low cost providers have limited profit-margin protection to bargain with high volume buyers, as strong buyers bargaining the price down is seen rarely or is uncommon when compared to the other cost efficient seller.

**7. When Industry New-comers Utilizes Introductory Low Prices for Drawing the Attention of Buyers and Establishing a Customer Base**

The low cost leader can cut down its own prices to make it difficult for the new entrants to attract new customers. The higher the price-sensitive, the buyers are the higher attractive the low cost strategy would be the low cost ability of a company for establishing the industry's price and earning profits help in creating protective barriers and retaining its market position.

**Q12. What are the advantages and disadvantages of low cost provider strategy?**

**Answer :**

**Advantages of Low Cost Provider Strategy**

The following are the advantages of a low-cost provider strategy,

1. A low-cost retailer can reap the profits at a rate or price which would lead to a loss to most of its major competitors.
2. A low cost provider would make the major competitors who would try to match the low-cost rival's prices to lose their money continuously.
3. Low-cost retailing is highly significant among the customers who are price sensitive and who are less or not loyal towards any retailer.
4. Low cost providers can easily attract the customers.

**Disadvantages of Low Cost Provider Strategy**

The disadvantages of a low cost provider strategy are as follows,

1. As low-cost provider strategy is concerned with excessive price cutting, it results in lower profits instead of higher profits.
2. It does not concentrate on the areas of cost advantage, which can be kept proprietary or which downgrades the competitors to succeed in reaching ahead. The value of a cost advantage relies on its sustainability which in turn relies on the determination that whether the company attains its cost advantage through tough methods, that are difficult for the competitors to copy or imitate or not.
3. This strategy can attain higher profits, only if,
  - (i) Prices are reduced by less than the size of cost advantage.
  - (ii) The supplemented gains in unit sales are sufficient for achieving higher profits inspite of lower margins per unit sold.
4. A low cost provider strategy significantly focuses on cost reduction. The product offered by low cost provider should include adequate attractive features for drawing the attention of potential buyers as low price itself does not attract the buyers.

### 3.4.2 Differentiation Strategies

**Q13.** Explain about differentiation strategy. Discuss the various differentiation strategies.

**Answer :**

#### Differentiation Strategies

Differentiation Strategy is the strategy through which the firm differentiates its offerings from other firms of an industry. A firm can differentiate its products/services from the products/services of other firms on the basis of any one or group of factors mentioned below,

- (i) Service after sale
- (ii) Brand equity
- (iii) Pricing strategy and pricing policies
- (iv) Product mix
- (v) Training to customers
- (vi) Distribution channel.

A firm is said to have achieved success in its differentiation strategy when the premium in which a customer is ready to pay is higher than the cost of differentiation.

For example, Himalaya Health Care products differentiates its products on the basis of natural, ayurvedic ingredients it uses and depends on ancient Indian traditional and modern scientific methods.

#### Types of Differentiation Strategies

The following are the various differentiation strategies,

##### 1. Product Differentiation

Based on the various products or service characteristics such as, type of product, its features, performance, imperishability, style, reliability, repairability, design, delivery, installation, customer training, maintenance, customer consulting and repair, the brands can be differentiated. Apart from these characteristics, a brand can also be positioned as high/best quality product. The firms offering high quality products will earn more profits as the products having high quality will be permitted to charge high price. This will help the firms to obtain the benefits of repeated purchase, customer loyalty and positive word of mouth.

##### 2. Personnel Differentiation

A firm can attain a competitive advantage over its rivals by having experienced and well trained employees.

Experienced and well trained employees have six attributes i.e., competency, courtesy, credibility, reliability, responsiveness and good communication skills. Retailers mainly make use of their front line employees for differentiating and positioning their brand.

For example, Singapore Airlines has attentive and responsible flight attendants, who have helped it earn an excellent reputation.

##### 3. Channel Differentiation

The firms can attain a competitive advantage over their rivals by building their distribution channels according to the coverage, expertise and performance.

For example, in computers – Dell and in cosmetics – Avon, differentiated themselves, by designing high quality direct marketing channels.

##### 4. Image Differentiation

The brand and company images are responded differently by the consumers. The identity and image of the product must be differentiated. Identity means how the firm wants to position its product and image means what the public perceives about the firm or its products. An effective identity builds the character and value proposition of the product, communicates this character in a different ways and influences the mental image of the buyers. The firm should communicate the identity of its products with the help of communication channels and brand contact. It must be circulated in advertisements, annual reports, brochures, catalogs, packaging, business cards and company stationery.

Thus, the above mentioned were the various differentiation strategies.

**Q14.** Explain the various types of product differentiation.

**Answer :**

Product differentiation is done on the basis of the following different types,

1. Form
2. Features
3. Customization
4. Performance quality
5. Conformance quality
6. Durability
7. Reliability
8. Repairability
9. Style.

##### 1. Form

The products can be differentiated with regard to form such as, size, shape or physical structure of a product. For instance, several forms are taken by products like aspirin. It can be differentiated by dosage, size, shape, colour, coating or action time.

## 2. Features

Many products can be produced with distinctive features for the customers for enhancing the basic function of the product. A company must recognise and choose suitable new features by conducting research on recent buyers and then comparing customer value with company cost for all the features. A company must determine the number of individuals who want each feature, the time required for initiating it, and can the competitors copy it easily or not. In order to prevent, "feature fatigue" the company must effectively prioritize the features that are involved and must determine the techniques which help in providing information with regard to the way in which consumers use and obtain benefit from the features. The companies should also consider features in bundle or packages.

## 3. Customization

Many products offered to the customers can be differentiated by making them customized to an individual. The increased ability of the firms towards individual market offerings, messages and media is the result of gathering competent information (about the individual customers and business partners) and the flexibility of factories. Mass customization is the capacity of a company to fulfill customer's requirements and creating a mass basis for individually designed products, services, programs and communications.

## 4. Performance Quality

Performance Quality is the basic level at which all the major characteristics of products operate. Many products are developed at any one level out of the four performance levels – low, average, high and superior. Quality is considered as the most significant aspect for differentiation as the companies are using value models and offering higher quality products for a lesser price. But, it is not necessary for the firm to design the highest performance level possible. The manufacturer must design performance level which is suitable to the target market and competitor's performance levels. Continuous improvement in the quality of the product helps in obtaining high returns and market share but failing to improve the quality can lead to negative results.

## 5. Conformance Quality

Mostly, the buyer expects the products to include a high conformance quality. A high conformance quality is the extent to which all the produced units are similar and fulfill the desired specifications. Whereas, the low-conformance quality is the product which disappoints few buyers.

## 6. Durability

Durability is the most important attribute for certain products. It is a measure of the product's expected operating life under natural or stressful conditions. Buyers are ready to pay more for vehicles and kitchen appliances for their long lasting values, but at the same time the price must not be high. The product should not be liable to rapid technological obsolescence like personal computers and video cameras.

## 7. Reliability

Reliability is a probability measure, that a product will not malfunction or fail within a specified time. The buyers are ready to pay a premium for reliable products.

## 8. Repairability

Repairability measures help in fixing or repairing the products when it malfunction or fails. A perfect repairability exists when the users can fix or repair the product with less cost in money or time. Some products have certain attributes which permit service personnel to correct a problem over the telephone or assist the user for correcting it. For example, several computer hardware and software companies provide technical support over the phone through fax or e-mail or by real-time "chat" on-line.

## 9. Style

Style helps in developing a uniqueness in the product which is difficult to copy. It outlines the way in which the product looks and feels to the buyer. But a strong style does not always indicate high performance.

### Q15. When does a differentiation strategy works best? Explain the need for differentiation.

#### Answer :

#### Suitable Situations for Differentiation Strategy

Differentiation strategy would work best in the market situation where,

1. There are various methods to differentiate the product or service and most of the buyers takes into consideration these differences as possessing value. Except when they (buyers) hold strong desire with respect to certain characteristics where there are less profitable differentiation opportunities.
2. When the buyer needs and uses are distinct. In case when there are greater differences between the buyer preferences then the number of varied approaches would be followed by the firm towards differentiation.
3. Certain competitors follow similar differentiation approach. The intensity of competition among the competitors would be less when they follow unique strategies for attracting the customers.
4. Technological variations are very quick in nature and competition revolves around fastly resulting in product characteristics.

Quicker product innovations and creation of next version products facilitate in sustaining the buyer's interest and also provides the company to continue separate differentiating paths.

#### Need for Differentiation

The following are the reasons, why producers differentiate their products. They are,

1. It helps a firm to prevent threats from substitutes.
2. It safeguard the company from its rival's strategies, as customers become loyal to the brand and are ready to pay higher price for the products they like most.
3. It creates line of defence to deal with competitors and provide price advantages and higher profits.
4. It reduces the bargaining power of consumers when the consumers did not find the competitors products attractive.
5. It creates entry barriers for the new firms in the form of unique products and customers loyalty.

#### Q16. Discuss the advantages and disadvantages of differentiation strategy.

**Answer :**

##### Advantages of Differentiation Strategy

Differentiation strategy has the following advantages,

- (i) Greater customer loyalty can be gained through differentiation strategy.
- (ii) More number of products can be sold by attracting additional customers through differentiating features.
- (iii) The producers can gain a premium price through differentiated products.
- (iv) If the cost of differentiation is less than the product price, the firm can earn profits.

##### Limitations of Differentiation Strategy

Differentiation strategy fails to give effective results in the following situations,

- (i) When other firms in the market are more capable of differentiating their products/services.
- (ii) When differentiation by means of technology or product attributes can no longer achieve good results in the long run.
- (iii) When customers give no more importance to the means of differentiation and consider all brands equally attractive.
- (iv) When the firm tries to increase a premium price.
- (v) Try to differentiate product on that basis which do not reduce the customer cost.
- (vi) Firm can face loss if the product is over differentiated.

#### 3.4.3 Focussed Strategy/Market Niche Strategy

##### Q17. Discuss in detail about focus strategy.

**Answer :**

*Model Paper-II, Q8(b)*

##### Focus Strategy

Firms having a less competitive scope must adopt the focus strategy unlike cost leadership or differentiation strategies which can be adopted at broader base. It is a special strategy or a niche strategy where a strategist selects those market segments (only one at a time) which can be effectively served by him. After choosing the market segment, they adopt the suitable strategy to serve the segment. The best example could be of Tata Nano car, where the main focus is on average earners.

##### Focussed Low-Cost Strategy

The main aim of the focussed strategy based on low cost is to have a competitive advantage over the rival firms by reducing the cost and price and catering only to a small market segment or a niche market. It can achieve this if it can reduce its costs and also the number of customers that it serves. The sources to achieve this are same like that of "low-cost leadership strategy moving ahead of rivals by controlling the factors which increases costs and shape its value chain in such a way that it has a cost advantage over competitor.

Focused strategies based on lower cost are very prevalent. Low cost are achieved in product development, marketing, distribution and advertising by producers of private-label goods. They do this by focusing on producing those generic items which has a good brand name and can be initiated. Then they directly sell these goods to those retail outlets who want a basic house brand to sell to those buyers who are price-conscious.

##### Focussed/Market Niche Strategy based on Differentiation

A focused strategy based on differentiation tries to achieve competitive advantage in a niche market by providing products to buyers as where they can select the product according to their unique tastes and preferences. This strategy can be successful if the existing buyers try to look for special features in the product and also for the capability of the seller to be unique among the other competitors in the same niche market.

##### Benefits of Focussed Strategy

Some of the benefits of focussed strategies are,

- (i) The focussed organisation can stay away from the competition by providing the products and services that are not provided by the competitors.
- (ii) The focussed organisations can pass on the price increments to the loyal customers.

**3.14****STRATEGIC MANAGEMENT**

- (iii) Powerful buyers shift less frequently to loyalties as they may not find anyone in the market who can provide products/services like focussed organisations.
- (iv) The competence of the focussed organisation provides an effective entry barriers to potential entrants.

**Risks of Focussed Low-Cost or Focussed Differentiation Strategy**

The various risks associated with this strategy are as follows,

1. The possibility that competitors may identify the advantageous method which is similar to the focused firm's capabilities to serve the target market niche may be with highly appealing product offerings or by creating expertise and capabilities, which would meet the focuser's strengths.
2. The possibility of variations in the preferences and requirements of niche members, which would lead to the reduction of entry barriers for the competitors to enter into a focuser's market niche.
3. If the segment is very attractive, then within no time, it would be flooded by the competitors thereby increasing the intensity of competition and decreasing the market share profits.

**Advantages of Focus Strategy**

The following are the advantages of focus strategy,

- (a) It provides a basis to protect themselves against their competitors.
- (b) It creates entry barriers for the new firms and producers of substitute goods to enter into the niche market.
- (c) It has a greater ability to serve the needs of the powerful customers when compared to their competitors.

**Disadvantages of Focus Strategy**

- (a) Focus strategy fails to provide effective results when new firms enter the industry and divide the segment into various sub-segments.
- (b) The market segments targeted by the firm may not be able to attract customers due to technological or economic changes occurring in the markets. For instance, a cost-based focus strategy becomes less attractive for the customers when there is an increase in their income levels.
- (c) Sometimes, the firm faces problems in attracting customers through a focus strategy due to the entry of other firms, offering the similar type of products. For instance, the best example would be of Nirma washing powder. Nirma lost its customers to the other firms who were engaged in the production of washing powder. When firms stepped into the market with low price strategy.
- (d) It is not applicable when a leading and competing firm, attracts the segment by increasing the product line or by shortening the differences between the various segments.

**3.4.4 Best Cost Provider Strategy**

**Q18. Write about best cost provider strategy along with benefits and risks faced by best cost provider strategy.**

**Answer :**

**Best Cost Provider Strategy**

The strategy which aims to provide more value for customer's money. The main objective is to deliver good value to the customers by satisfying their expectations with regard to price, quality, service, features, performance, etc.

A company can gain competitive advantage only when it offers a product with value added service at low cost compared to its competitors. In order to be the best cost provider, a company should possess all the resources and skills to achieve best quality, provide value added services, match performance of the product and provide the best customer service at low cost than the competing firm.

Best-cost provider strategies are hybrid strategies which are a combination of both a low cost strategy and a differentiation strategy. The target market for such strategies is usually the valued potential buyers which is indeed a very sizable part of the whole market.

A best cost provider strategy can be more powerful in the markets where there is diversity in buyers which leads to product differentiation and also where the customers are sensitive to price and value. This is due to the fact that on best-cost provider can position itself to admit the market with either a medium-quality products at below average price or a good quality product at an average price.

Mostly, it is found that large numbers of customers prefer medium quality products rather than cheap goods produced by low-cost producers or high quality goods produced by top differentiators.

Unless and until a company possesses all the resources, technology and capabilities to produce good quality products or services with all the added features and most importantly at a lower cost than the competitor, the best-cost provider strategy would not work out well.

**Benefits of Best Cost Provider Strategy**

The various benefits of best-cost provider strategies are,

- (i) Through best-cost provider strategies, advantages of both differentiation and low cost provider strategy can be attained.
- (ii) As best-cost provider strategy intent to provide good value to the customers, it usually results in customer satisfaction.

**Risks Faced by a Best-Cost Provider Strategy**

The company implementing best-cost provider strategies would be lying between low cost strategy and differentiation strategy, which is the biggest risk because the low cost strategy would be attracting customers with the help of low cost on one hand and on the other hand differentiation strategy would be attracting customers with the help of innovative features. Therefore, a best-cost provider strategy to be successful needs to offer customers good product features in order to balance between the price of low cost and differentiation strategy.

**Q19. "Generic strategies have benefits and pitfalls". Discuss**

*April-15, Q4(a)*

**OR**

**Examine the pros and cons of generic strategies.**

**Answer :**

*(Model Paper-II, Q8(a) | May/June-16, Q4(a))*

Generic strategies are classified into four strategies. The benefits and pitfalls of those strategies are as follows,

**1. Low Cost Provider Strategy**

For answer refer Unit-III, Page No. 3.10, Q.No. 12.

**2. Differentiation Strategy**

For answer refer Unit-III, Page No. 3.13, Q.No. 16.

**3. Focussed Strategy**

For answer refer Unit-III, Page No. 3.13, Q.No. 17.

**4. Best Cost Provider Strategy**

For answer refer Unit-III, Page No. 3.14, Q.No. 18.

### 3.5 CHOICE BASED STRATEGIES

**Q20. Discuss about Choice Based Strategies.**

**Answer :**

Academics and Consultants have suggested many theoretical models based on strategic choice. Most famous among those strategies are,

1. Ansoff's product market strategies
2. Porter's generic strategies
3. Boston Consulting Group's portfolio framework.

**1. Ansoff's Product Market Strategies**

Igor Ansoff observed that strategy is considered as a rule for making decisions but it is only for means not for ends. Hence, strategic decisions are source which are used by organizations in order to achieve strategic objectives. Ansoff clearly understand the relationship between strategy and objectives and suggest to keep them separate. According to Ansoff, strategic decisions must be different from administrative decisions and operating decisions. The product market decisions results in a matrix of generic strategies which are very famous. Ansoff make use of two parameters relating to product i.e., Mission and Present, which are new for producing four generic strategies.

The basic matrix adopted from Ansoff's original is as follows,

		Present Products	New Products
		Market Penetration	Product Development
		Market Development	Diversification
<b>Present Market</b>		Market Penetration	Product Development
<b>New Markets</b>		Market Development	Diversification

The model exhibits four principal product market strategies, they are,

- (a) Market penetration in which business emphasize on increasing its market share by utilizing the current range of products in its present markets.
- (b) Market development in which business utilize its present products into fresh markets and emphasize on activities relating to market opportunities and competitor situations.

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(c) Product development in which new products are introduced into an existing markets and emphasize on development, launching and making additions to the product range.

(d) Diversification in which business decide to divide into new products and even in new markets.

#### **2. Porter's Generic Strategies**

Porter have proposed a different approach for generic strategies. He emphasized on sustainable competitive advantage and proposed three principal strategies i.e., overall cost leadership, differentiation and focus. Porter explained four quadrant model by using parameters of competitive advantage and competitive scope.

#### **Competitive Advantage**

Competitive Scope	Broad Target	Lower Cost		Differentiation	
		Cost Leadership	Differentiation	3A. Cost Focus	3B. Differentiation Focus
Narrow Target					

Among three strategies, cost leadership is clear and firm try to become low cost producer in industry. Second strategy is differentiation wherein unique features are identified for product, so that customers can willingly pay a premium price and enable the firm to offer those features. Third strategy is focus wherein a market segment is selected to attain competitive advantage by fulfilling the wants of that segment. Focus strategy is classified into two strategies i.e., focussing on cost advantage and developing a differentiation advantages.

#### **3. Boston Consulting Group's Portfolio Framework**

Boston Consulting Group was introduced by Bruce Henderson who focus on experience curve. Experience curve seems to be useful in emphasizing on relationship between costs and experience. Factors contributing to the experience curve are,

- (a) Enhanced efficiency of labour over time.
- (b) Enhanced production methods in view of experience.
- (c) Enhanced performance by using available equipment.
- (d) Enhanced conditions of supplier.

Firms which attain lower cost can have benefit of lower prices overall as rivals also take advantage of experience curve.

### **3.6 INDUSTRY LIFE CYCLE STAGES**

#### **Q21. Describe various strategies in different stages of industry life cycle with examples.**

*(Model Paper-III, Q8(b) | May/June-16, Q4(b))*

**OR**

#### **Discuss industry life cycle stages.**

#### **Answer :**

*April/May-14, Q4(b)*

The industry life cycle refers to the four stages of,

1. Introduction
2. Growth
3. Maturity
4. Decline.

That takes place during the life of an industry. The life cycle concept can be studied from various levels ranging from the life cycle of the complete industry to the life cycle of a single variation or model of a particular product or service.

The degree of attention paid to the different generic strategies, value creating activities functional areas and overall objectives differs throughout the industry life cycle.

The following figure represents the four stages industry life cycle and how the factors like generic strategies, intensity of competition, market growth rate, etc, changes overtime.

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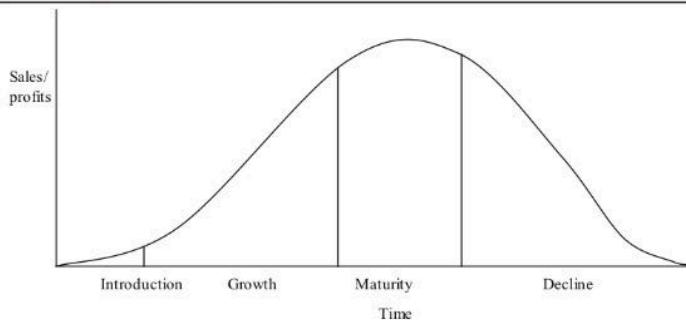


Figure: Stages of Industry Life Cycle

Stage Factor	Introduction	Growth	Maturity	Decline
Generic Strategies	Differentiation	Differentiation	Differentiation overall cost leadership.	Overall cost leadership focus.
Market Growth Rate.	Low	Very large	Low to moderate.	Negative
Emphasis on Product Design.	Very high	High	Low to moderate.	Low
Emphasis on Process Design.	Low	Low to moderate.	High	Low
Intensity of competition	Low	Increasing	Very intense	Changing
Number of segments.	Very few	Some	Many	Few
Overall objective.	Increase market awareness.	Create consumer demand.	Defend market share and extend product life cycles.	Integrate maintain, harvest or exit.
Major functional areas of concern.	Research and development.	Sales and marketing.	Production	General management and finance.

Managers must be well versed about all the functional areas in all the stages in order to gain the competitive advantage and consistency in all the functional areas and value creating activities.

For instance, sales and marketing is regarded as the key functional area of growth stage but the managers are urged to emphasize even on the other functional areas like R&D, production besides this function.

#### 1. Introduction Stage and its Strategies

Introduction stage is characterized by the following features (i) Unfamiliar products to the consumers. (ii) No clear market segments (iii) Vaguely mentioned product features (iv) Low competition because of few players in the market (v) Low sales growth (vi) Continuous technological variations (vii) operating losses (viii) Requirement of heavy cash to finance operations etc.

The key functional areas in this stage are research and development and marketing activities, which would help in creating and improving awareness among the customers with respect the product or service. The primary activities of this stage are,

- (a) Developing the product and attracting the customers towards the newly launched product.
- (b) Developing the product in such a way that, it acts as a standard for analyzing all the competitors products.

The major advantage of being “first mover” in the market is that they can easily establish a recognizable global brand.

For instance, the *i*-phone introduced by apple. i.e., introduction of *i*-phone by apple company has helped it to gain the major market share of *i*-phones.

## 2. Growth Stage and its Strategies

This stage is characterized by continuous increase in sales and this increased sales helps the competitors to enter into the market and share the profits.

A product can be successful in this stage if it is able to develop consumer preferences for particular brands which would further needs good brand recognition, products with unique features, financial resources to assist different value chain activities like marketing and sales, customer service, R&D etc.

Growth stage is characterized by increasing revenues due to,

- (a) New customers for the product
- (b) Repeat purchases made by the satisfied customers.

Usually, when the product is passing through its life cycle, the extent of repeat buyers to new buyers increases, but the new products and services would fail if only few repeat purchases are made.

## 3. Maturity Stage and its Strategies

The third stage is characterized by decreasing demand and as the markets begin to saturate, the available opportunities of attracting the new customers tends to decrease.

The company would experience a downfall in its competitive position and direct competition becomes dominant. The competition among the existing competitors increases because of which the marginal competitors withdraws from the market.

The customers would become more price sensitive and have a better insight of products and services. Therefore, the firm should provide unique products and services with the help of efficient manufacturing operations and process engineering.

For Instance, Introduction of LCD's, plasma TV's in the market for general television is currently in the maturity stage.

## 4. Decline Stage and its Strategies

This is the last stage of industry life cycle where in the firms should make difficult choice. In this stage the firm has to decide as to whether to exist or stay in the market by strengthening its position or else it should quit from the market.

Usually, the firms reaches the decline stage because of fall in its sales and profit values and this situation in turn takes place due to the changes that takes place in business environment or variations in consumer tastes and preferences or due to the rapid technological variations.

For Instance, The introduction of MP3 and MP4 players led to the declining of radio, tape recorders market.

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If the product reaches the declining stage then the management should spend more time and money than what is actually being needed otherwise the competitors would reduce their products prices to a great extent in order to make the cash and remain solvent in the short term.

In this stage, the strategic choices available to the firm basically relies upon the competitors actions. The firm can earn the profits if most of the competitors exit. Incase they do not quit, then the firm would not be able to earn profits. Even the mergers of few firms can decrease the available opportunities for the remaining firms. Therefore, the managers needs to carefully observe the competitors activities before one decides and proceeds for further action.

## 3.7 TAILORING STRATEGY TO FIT SPECIFIC INDUSTRY

### Q22. What are the different strategies that best fits the specific industry and company situations?

**Answer :**

*Model Paper-III, Q8(a)*

Following are the different strategies which are appropriate for different industries and company situations,

#### 1. Strategies for Emerging Industry

For answer refer Unit-III, Page No. 3.18, Q.No. 23.

#### 2. Strategies for Maturing Industry

For answer refer Unit-III, Page No. 3.20, Q.No. 24.

#### 3. Strategies for Stagnant Industry

For answer refer Unit-III, Page No. 3.21, Q.No. 25.

#### 4. Strategies for Fragmented Industry

For answer refer Unit-III, Page No. 3.22, Q.No. 26.

#### 5. Strategies for Leaders

For answer refer Unit-III, Page No. 2.24, Q.No. 27.

#### 6. Strategies for Runner Up Firms

For answer refer Unit-III, Page No. 3.25, Q.No. 28.

#### 7. Strategies for Weak and Crisis Business

For answer refer Unit-III, Page No. 3.26, Q.No. 29.

### 3.7.1 Strategies for Competing in Emerging Industries

### Q23. What is an emerging industry? Explain the different challenges faced by emerging industries and strategic avenues to be followed by them.

**OR**

**Suggest strategies for emerging industries to compete and survive in the market.**

*(Refer Only Topic: Strategic Avenues in Emerging Industry)*

**Answer :***May/June-12, Q4(b)***Emerging Industry**

An emerging industry refers to that type of industry in which the firms are operating during the early stages of its formation/development. Most of the companies of such industry are putting their numerous efforts for establishing strong foot hold in an emerging industry are in start-up mode, including advanced technology, appointing more people, obtaining various facilities, implementing various activities, increasing distribution and achieves buyer acceptance.

The business models and the strategies of companies in an emerging industry are without prior verification, the business concepts and strategies which seem to be hopeful may never yield good profits.

**Challenges Faced by Emerging Industries**

Managers competing in emerging industries face the following unique strategy-making challenges,

1. As, the market is new and unproved, the assumptions regarding the operation of the market are usually followed specifying the rate at which it grows and expands. Rapid growth of the buyers and the willingness to pay for the demand of the goods are mostly relied on the guess work.
2. Mostly, the technological knowledge regarding the products of emerging industries is owned and closely safeguarded by the pioneering firms, whose patents and specific technical knowledge acts as significant factors in the attainment of competitive advantage.
3. Generally, there is no evidence regarding the likelihood of specific technology which will enable the firm in competing successfully in the market or which product feature is crucial for the achievement of buyer's satisfaction.
4. Due to the bulk production (in large volumes), strong learning and experience curve effects are identified as a result of high price reductions and the decline in the per unit cost of a product.
5. The entry barriers for establishing the new entrepreneurial units are generally low. If the emerging industries have explosive growth then they will attract those firms that are vast, well-established, opportunity searching companies with extensive resource base and competitive capabilities.

**Strategic Avenues in Emerging Industry**

Any company belonging to an emerging industry attains success when it adopts one or the combination of two or more strategic avenues, which are as follows,

1. A firm becomes industry leader by undertaking risky entrepreneurship and by formulating an innovative and creative strategy. The firm can gain the competitive advantage by adopting broad or differentiation strategies relating to the technological or product superiority.
2. Adopting perfect technology enhancing the product quality by adding attractive and value-added characteristics to the existing products, thereby improving the performance of the firm.
3. Establishes strategic alliances with the key suppliers so as to gain access towards specialized skills, technological capabilities and important materials or constituents.
4. Whenever the technology becomes uncertain a firm is required immediately to introduce the advanced technology.
5. Establish alliances with those firms that are possessing efficient technological base which can be optimally used so as to out compete the competitors based on the acquired technological superiority.
6. Employ new customer groups, new user applications so as to have an access towards the new geographical areas. If the firm has limited financial resources, then it is advisable to adopt either strategic partnerships or joint ventures.
7. Follow those strategies that enable the firm to size any first mover advantages relating to the potential technologies.
8. Facilitate the first-time buyers to purchase and produce the industry's first-generation product by making them easily available at the retail outlets at low prices. Once the product gains the access to a wider market segment, then the firm should shift its advertising focus from the development of product awareness to motivate the customers to improve their frequency of use and to build brand loyalty.
9. Adopt price cuts to attract the price sensitive buyers into the market.

The companies emerging in fast-growing markets come across three strategic obstacles,

- (i) Managing and controlling the own rapid expansion.
- (ii) Protecting against the competitors who are striving hard to put hurdles in the success of the firm.
- (iii) Establishing a product position which goes beyond the firm's initial product or a market.

### **3.7.2 Strategies for Competing in Maturing Industries**

**Q24. What is a maturing industry? Explain the different changes and strategic moves of the maturing industries.**

**Answer :**

#### **Maturing Industry**

Any industry which shifts from a rapidly growing stage to a considerably slower growth stage is referred to as "Maturing Industry". The industry is said to be the mature when all the potential buyers already represent the consumers of its products.

In the market, the demand only includes the increased sales to the existing users, where growth comprehensively relies on the capability of industry to attract the remaining buyers and to persuade the existing buyers to improve their buying abilities.

#### **Industry Changes due to the Market Maturity**

A fast growing industry may move towards the maturity industry because of the advancements in technology, innovations in product, variations in market demand etc. In spite of that, when growth rate decreases, the outbreak of market maturity leads to the initiation of basic changes in the industry's competitive environment.

1. Reduction in the growth of buyer's demand leading to head-to-head competition for market share.
2. Improved sophistication of buyers thereby increasing the bargaining power of repeat purchases.
3. Laid down more emphasis on the cost and service.
4. Firms face "Topping-out" problem while adding new facilities.
5. Product innovation and new end-use applications are difficult to achieve.
6. Improvement in the international competition.
7. Industry profitability falls temporarily or permanently.
8. Strong competition convinces a number of mergers and acquisitions among competitors, eliminates the weaker firms out of industry and leads to strengthening of industry.

#### **Strategic Moves in Maturing Industry**

The various strategic moves which helps in the retention of the firm's competitive position includes,

##### **1. Reducing Marginal Products and Models**

When the total number of models, features and product options available are large in number, then it would lead to the competitive situation during the growth stage. But this would be considered as highly expensive due to increased competition and decreased profit margins.

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Maintenance of diversified form of products may not be able to attain the desired design parts inventory, production economies at manufacturing levels. All these factors led to the increment in the inventory stocking costs for distributors and retailers.

Cutting down marginal products helps to have cost savings and helps to emphasize on high product margins or where a firm has a competitive advantage.

##### **2. Emphasizing More on Value Chain Innovation**

The value chain of any industry can be redesigned by lowering the costs or by improving the product or service quality, enhanced capacity to terminate multiple or customized product versions, which helps in reducing the duration of market cycles.

Manufacturers can mechanize high cost activities, reformulate production lines to improve the efficiency of labour, increased flexibility of the assembly process, so as to easily produce, customized product versions and increase the usage of advanced technology.

Suppliers of parts and components, manufacturers, and distributors can cooperatively use the internet technology and e-commerce techniques to smoothen the different value chain activities and execute cost saving innovations.

##### **3. Trimming Costs**

Strong price competition provides the firms additional incentives and so as to decrease unit costs. The various cost reduction activities followed by the firms are,

- (i) Compelling suppliers for improved prices
- (ii) Performing strict supply chain activities, eliminating low value activities out of the value chain, creating more economical product designs, deploying e-commerce technology to reengineer internal processes and moving towards more economical distribution arrangements.

##### **4. Increasing Sales to Existing Customers**

In a mature market growing by withdrawing the customers away from the competitors is not as attractive as increasing the sales from existing customers. The various strategies which can increase the sales of existing customer are – sales promotion, offering complementary products, and additional services, exploring various ways for the customers to use the product.

##### **5. Obtaining Rival Firms at Bargain Prices**

At times, certain firms can obtain the facilities and assets of suffering competitors at a low cost. Bargain priced acquisitions facilitates to establish a low-cost position if they provide chances for increased operating efficiency and an acquired firm's customer base can offer increased market coverage and opportunities for greater scale economies. The most valuable acquisitions are the one which can improve the competitive strengths of acquiring firm.

**UNIT-3 STRATEGY FORMULATION AND SUSTENANCE****3.21****6. Expanding Internationally**

If a firm's domestic market matures, then it can access into foreign markets where the potential for growth is still persisting and the competitive pressures are not very strong.

The domestic firms can enter into the foreign market when its skills, fame and product can be easily transferred into foreign markets.

**7. Building New or Highly Flexible Capabilities**

The strong competitive pressures in a maturing or already mature market can be fought against by reinforcing the firm's resource base and competitive capacities. This can be done by supplementing new capacities or competencies, increasing the complexity of existing competencies, so that they are difficult to be copied or to formulate core competencies which can be easily adopted changing customer needs and expectations.

For instance, Microsoft furnished response to the competitor's challenges by increasing its already existing large cadre of talented programmers.

**3.7.3 Strategies for Firms in Stagnant or Declining Industries**

**Q25. What are the stagnant of declining industries? Briefly explain the three different strategic themes of stagnant industries.**

**Answer :**

**Stagnant/Declining Industries**

Stagnant/declining industries are the industries whose market share is diminishing or which are experiencing zero growth.

For instance, the mattress and pillow industries were showing constant growth rate for so many years until the innovative products were introduced in the markets. Some of the innovative products include, allergy-proof bedding and new marketing techniques like catalog and brochure sales, which not only increased the growth rate but also built loyalty among the customers.

Most of the firms execute their business activities in the industries where demand is growing at a much slower pace than the economy wide average or sometimes when the demand was declining.

**Strategic Themes of Stagnant Industries**

The competitors whose long term strategy was inefficient, generally follow the end-game strategies like harvesting their business to attain high cash flows, selling out part of it or completely undergoing shutdowns. However, the dynamic competitors are capable of performing well even in the stagnant environment.

Stagnant demand may not always lead to industry unattractiveness, so overcoming such a situation, selling out and shutting down cannot be considered as a remedy instead takes up any of the following strategies,

**1. Adopt a Focused Strategy Which Aims at the Fastest Growing Market Segments within the Industry**

Similar to the other markets stagnant declining markets also includes various other segments or niches. It is not compulsory that if a single market segment is experiencing a decline, then the segments of the industry have to suffer losses.

A clever competitor possessing fast growing segments, and who is the first one to meet the requirements of buyers of such segment can have increasing sales and profits, instead of reaping stagnating sales and profits.

**2. Stress Differentiation Relying on Quality Improvement and Product Innovation**

Either the improved quality or innovation increases the demand. This can be achieved by developing significant growth segments or by motivating the buyers to purchase their newly introduced products. Successful product innovation helps to compete by meeting or beating rival's prices. Even if the success is based on the differentiation that relies on successful innovation, provides the additional advantage of being tough and costly for the rival firms to copy.

For instance, the market demand become stagnant in the worlds industrialized nations for few years when Sony has differentiated its TV sets into LCDs and LEDs.

**3. Make Efforts to Lower the Costs and become the Industry's Low Cost Leader**

Companies in stagnant industries can increase their profit margins and return on investment by adopting various techniques through which costs could be considerably reduced. The possible cost-saving actions are,

- (i) Eliminating additional value-added activities from the value chain
- (ii) Outsourcing the activities and operations to the outsiders who can perform them more cheaply
- (iii) Exploiting e-commerce techniques through reformulating internal business processes
- (iv) Integrating under utilized production facilities for complete utilization
- (v) Including new distribution channels to confirm the unit volume required for low cost production
- (vi) Shutting down low-volume, high-cost retail outlets
- (vii) Eliminating/dropping the marginal products from the firm's offerings.

### 3.22

These three strategic moves are not considered as mutually exclusive. Launching of innovative product versions help in increasing the pace of the growing market segments. In the same way, continuous search for higher operating efficiencies allow price reductions which in turn establish price conscious growth segments.

Common mistakes committed by the companies in such markets includes,

1. Getting stuck in the profitless war of attrition.
2. Eroding huge amount of cash from the business.
3. By behaving optimistically regarding the industry's future and investing huge capital on improvements by speculating that performance could be made better in future.

#### 3.7.4 Strategies for Competing in Fragmented Industries

**Q26. What are the reasons for industry fragmentation? Write down the strategy options for a fragmented industry.**

**Answer :**

An important structural environment in which many firms compete is the fragmented industry, that is, an industry in which no firm has a significant market share and can strongly influence the industry outcome. Usually fragmented industries are populated by a large number of small and medium sized companies, many of them privately held. The essential notion that marked these industries a unique environment in which to compete is the absence of market leaders with the power to shape industry events.

Some fragmented industries, such as computer software and television program syndication, are characterized by products or services that are differentiated, whereas others, such as, oil tanker, shipping, electronic component distribution, and fabricated aluminum products, involve essentially undifferentiated products.

Fragmented industries also vary greatly in their technological sophistication, ranging from high technology businesses like solar heating to garbage collection and liquor retailing.

#### Reasons for Industry Fragmentation

There are several reasons for industry fragmentation. They are,

1. Market demand is so extensive and so diverse that very large numbers of firms can easily coexist trying to accommodate the range and variety of buyer preferences and requirements and to cover all the needed geographic locations.

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2. Low entry barriers allow small firms to enter quickly and cheaply.
3. An absence of scale economies permits small companies to compete on an equal cost footing with larger firms.
4. Buyers require relatively small quantities of customized products (as in business forms like interior design, kitchen cabinets, and advertising). Because demand for any particular product version is small, sales volumes are not adequate to support producing, distributing, or marketing on a scale that yield advantages to a large firm.
5. The market for the industry's product or service is becoming more global, putting companies in more and more countries in the same competitive market arena (as in apparel manufacture).
6. The technologies embodied in the industry's value chain are exploding into so many new areas and long so many different paths that specialization is essential just to keep abreast in any one area of expertise.
7. The industry is young and crowded, with appraising contenders, with no firm having yet developed the resource base, competitive capabilities, and market recognition to command a significant market share (as in on-line business-to-consumer retailing via the internet).

#### Strategy Options for Fragmented Industry

There are number of possible strategic alternatives for coping with fragmented structure. Each is directed at either better matching the firm's strategic posture to the particular nature of competition in fragmented industries or neutralizing the intense competitive forces that are usually the rule in these industries.

##### 1. Tightly Managed Decentralization

Since, fragmented industries often characterized by the need for intense coordination, local management orientation, high personal service and close control, an important alternative for competition is tightly managed decentralization.

Rather than increasing the scale of operations at one of a few locations, this strategy involves deliberately keeping individual operations small and as autonomous as possible. This approach is supported by tight central control and performance-oriented compensation for local managers.

The essential motion of this type of strategy is to recognize and cater to the causes of fragmentation but to add a degree of professionalism to the manner in which local managers operate.

## 2. "Formula" Facilities

Another alternative, related to the previous one, is to view the key strategic variable in the business as the building of efficient, low-cost facilities at multiple locations.

This strategy involves designing a standard facility, whether it be a plant constructing and putting the facility into operation at minimum cost. The firm thereby lowers its investment relative to competitors and/or provides a more attractive or efficient location from which to do business.

## 3. Increased Value Added

Many fragmented industries produce products or services that are commodities or otherwise difficult to differentiate, many distribution businesses, for example, stock similar if not identical product lines to their competitors. In cases such as these, an effective strategy may be to increase the value added of the business by providing more service with sale, by engaging in some final fabrication of the product (like cutting to size or punching holes) or by doing sub assembly or assembly of components, before they are sold to the customer.

Enhanced product differentiation and thereby higher margins, that cannot be achieved on the basic product or service may be achievable through such activities.

This concept has been successfully implemented by a number of metal distributors who have positioned themselves as "metal service centers" engaging in simple fabrication operations and providing a great deal of advice to the customer in what had historically been a purely pass-through business. Some electronic component distributors have similarly been successful in subassembly of connectors from individual components or assembling kits.

Value added can also sometimes be enhanced by forward integration from manufacturing into distribution or retailing. This step may neutralize buyer's power or allow greater product differentiation by better controlling the conditions of sale.

## 4. Specialization by Product Type or Product Segment

When industry fragmentation result from or is accompanied by the presence of numerous items in the product line, an effective strategy for achieving above-average results can be to specialize on a tightly constrained group of products.

This approach is one variant of the focus strategy described. It can allow the firm to achieve some bargaining power with suppliers by developing a significant volume of their products. It may also allow the enhancement of product differentiation with the customer as a result of the specialist's perceived expertise and image in the particular product area.

## 5. Specialization by Customer Type

If competition is intense because of a fragmented structure, a firm can potentially benefit by specialization on a particular category of customer in the industry perhaps the customers with the least bargaining leverage because they purchase small annual volumes or because they are small in absolute size or the firm might specialize in the customers, who are the least price sensitive or who needs the value added services provided by the firm apart from their basic products or services.

Like product specialization, customers specialization may limit growth prospects for the firm in return for offering higher profitability.

## 6. Specialization by Type of Order

Regardless of the customer, the firm can specialize in a particular type of order to cope with intense competitive pressure in a fragmented industry. One approach is to service only small orders for which the customer wants immediate delivery and is less price sensitive, or the firm can service only custom orders to take advantage of less price sensitivity or to build switching costs. Once again, the cost of such specialization may have some limitation in volume.

## 7. A Focused Geographic Area

Even though a significant industry-wide share is out of reach or there are no national economies of scale (and perhaps even diseconomies), there may be substantial economies in blanketing a given geographic area by concentrating facilities, marketing attention and sales activity. This policy can economize on the use of the sales force, allow more efficient advertising, allow a single distribution center and so on.

Having bits and pieces of business in a number of areas, on the other hand, accentuates the problems of competing in a fragmented industry.

The blanketing strategy has been quite effective for food stores, which remain a fragmented industry despite the presence of some large national chains.

## 8. Bare Bones/No Frills

Given the intensity of competition and low margins in many fragmented industries, a simple but powerful strategic alternative can be intensive attention to maintain a bare bones/no frills competitive posture—that is, low overhead, low skilled employees, tight cost control and attention to detail.

This policy places the firm in the best position to compete on price and still make an above average return.

## 9. Backward Integration

Although the causes of fragmentation can preclude a large share of the market, selective backward integration may lower costs and put pressure on competitors who cannot afford such integration.

### 3.7.5 Strategy for Leaders

**Q27. Suggest a few strategies for industry leadership.**  
*April/May-II, Q5(b)*

**OR**

**Describe relevant strategies for industry leaders.**

**Answer :** *(Model Paper-I, Q8(b) | May-17, Q4(b))*

An industry leader is the one who dominates the market in terms of sales and products and holds good reputation in the market and smoothly executes its activities in long-run.

The competitive position of industry leaders generally ranges from "stronger than average to powerful".

Few well known industry leaders include,

Microsoft (Computer Software), Mc Donalds (Fast food), Nokia (Cell phones), AT&T (Long distance telephone services), Walmart (Discount retailing), Amazon.com (Online shopping), eBay (Online auctions), Levi Strauss (Jeans) etc.

Most of the leaders emphasize on the adoption of methods strategies so as to protect and reinforce its leadership position to become "the dominant leader" rather than simply acting as a market leader. However, the efforts for industry leadership and for gaining large market share are significant outcomes which would be achieved as a result of competitive advantage and profitability if the company acts as the industry's biggest company.

The three distinct strategic moves of industry leaders are as follows,

#### 1. Stay-on-the-offensive Strategy

The primary goal of this strategy is to be a first mover and a pro-active market leader. This strategy relies on the saying that the "Best defense is a good offense" i.e., the company is able to protect itself by standing-one step ahead of the competitors and allowing them to follow it. By following this philosophy, company achieves prominent position in terms of both profits and market shares.

Being the industry standard setter involves the application of persistent efforts for bringing continuous improvement and innovation among its products by acting as an initiator to follow advanced technologies, new or improved products, incorporated value-added performance characteristics, quality improvements, improved customer services. They also employ methods to reduce operating costs and make their products easily accessible by the potential customers who want to shift from the runner-up firms towards their own products.

A low cost firm who wants to lead the markets need to improve the speed of cost reduction and a differentiator should regularly identify the new methods to create unique products which separates its brands from the similar brands of competitors.

The other alternatives available for making the offensive strategy includes,

Establishing method which creates a drastic rise in the overall industry demand. Encouraging the establishment of new families of products, making the product more proximal for consumers by keeping them at the emerging country markets, identifying new users for the product, fascinating new users of the product, and improving the frequency of the regular usage of the products.

If a leader's growth is not equal or higher than the average growth rate of an industry then its market shares and position can be easily taken over by its competitors.

#### 2. Fortify and Defend Strategy

The principal of this strategy is to make it difficult for the competitors to acquire the market share and the new firms to access the market.

The objective of a powerful defender is to maintain the existing market share, reinforce existing market position and safeguard the existing levels of competitive advantage held by it.

Some of the specific defensive actions are as follows,

- (a) Increasing the expenditure on advertising, increasing the extent of customer service and creating vast R & D outlays which restricts the competition imposed by the competitors and also the new entrants from being entering into the market.
- (b) Making adequate investment to persist as cost competitive and technologically advanced company.
- (c) Providing personalized services and other value-added services to the customers which helps in increasing the customer loyalty and make it difficult or costly for the customers to shift towards the competitor products.
- (d) Providing the products at affordable prices and of good quality.
- (e) Increasing the capacity higher than the market demand to demotivate the smaller competitors who are trying hard to establish their own capacity.
- (f) Seeking patents and other IPRs, for the proposed technologies.
- (g) Establish the contracts with good suppliers and dealer of distribution.

(h) Launch new product versions or brands which would meet the product characteristics of competitors or else may occupy the vacant niches which the competitors may trap.

This strategy is applicable for the firms,

(i) Which have already attained the dominant position in an industry and which are not ready to take up any further action for improvements.

(ii) Which are willing to earn more profits and cash flow because the industry's possibility for growth is low or because the possibility for improving the existing market share with high profit is not possible.

This strategy can grow at a much faster pace than the market (as a whole) but it needs reinvestment of the sufficient capital in the business so as to safeguard and nourish the leader's capability to compete in the markets.

### 3. MUSCLE-FLEXING STRATEGY

In this strategy, the dominant leader holds a strong strategy for the protection of its competitive role against the smaller competitors, who may threaten its position by making price cuts or adding new market offensives.

The specific strategies undertaken by the dominant leaders include,

(i) Matching or aligning their prices in accordance with the competitor's price.

(ii) Establishing large promotional campaigns to overcome the competitor's moves for the attainment of major portion of total market share and

(iii) Providing better and attractive offers to their potential customers.

Dominant leaders may show high concern towards the distributors with an objective of preventing them from supplying the competitor's products. This can be done by revealing the weaknesses of competitor's products to the salespersons or may fill the vacant position in their own firms by providing suitable offers to the executives of the competitors.

Sometimes, leaders adopt arm-twisting tactics towards those customers who are switching to the competitor's products. For that he may provide certain special discounts or preferred treatment to its existing customers.

The major risk associated with this strategy is that sometimes firms are going against the antitrust laws by pressurizing the customers with oppressing tactics and thereby provoking bad public opinion.

### 3.7.6 Strategy for Runner up Firms

**Q28. Discuss the strategies for runner up firms and explain the strategic approaches of runner up firms.**

**Answer :**

#### Strategies for Runner-up Firms

Runner-up firms also called as "second-tier" firms have lesser market shares than "first-tier" industry leaders. Some of them are up-and-coming market challengers, who use offensive strategies in order to gain market share and build a good market position whereas some are focusers who tries to improve their cost by concentrating only on serving a small portion of the market.

#### Hurdles for Firms with Less Market Shares

In large-sized industry, size may be the success factor however it could be difficult to attain that success by small firms whose market shows are smaller.

Hence, firms with small market shares must overcome the following abstracts,

1. Must avoid diseconomies of scale in manufacturing, distribution or marketing and sales promotion.
2. Facing hurdles in gaining customer awareness.
3. Less access for the usage of mass media advertising.
4. Lack of ability to assess capital requirements when a large scale economy have a dominating cost advantage over their competitors. Small-share firms may have only two feasible strategic options,
  - (a) Make offensive moves for gaining market share and sales and
  - (b) Withdraw from the business either immediately or gradually.

#### Strategic Approaches for Runner-up Companies

Runner-up firms have good amount of strategic flexibility and they may consider any one of the following seven approaches,

##### 1. Using Offensive Strategies to Construct Market Share

A runner-up firm can rarely improve its competitive position if it tries to copy the strategies of a leading firm. In offensive strategy a cardinal rule is not to attack a leader head-on with an imitative strategy even if it has the resources and staying power. Additionally, if the challenger has 5% share in the market and he needs 20% share to get good returns, it needs to have a creative approach for competing rather than simply "trying harder".

The best "mover-and-shaker" offensives for any ambitious runner-up company are the following approaches,

**3.26**

- (i) Introducing a good innovative technology.
- (ii) Bringing in new and better products in the market before the rivals and building a good reputation for product leadership.
- (iii) Being more quick and innovative and adaptive to changing market conditions and customer expectations than slower-to-change market leaders.
- (iv) Having a good strategic alliance with key distributors, dealers or marketers of complementary products.
- (v) Bring in innovative ways to cutdown costs and using that lower price in attracting and driving customers from higher-cost, higher-priced rivals.
- (vi) Building up a good differentiation strategy on the basis of premium quality, superior technology, outstanding customer service, quick product innovation or convenient options for online shopping.

**2. Achieving Growth Through Acquisition Strategy**

Many runner-firms merge or acquire rival firms and form an enterprise which has a greater competitive strength and a larger market share. For this enterprise to succeed, it is important that the senior management must have the skills to control the operations of the acquired companies, eliminate overlapping or duplication, generate efficiencies and save cost and structure the combined resources in such a way that stronger competitive capabilities may be generated. For instance, many book publishers have grown by acquiring small publishers. Similarly, many banks have grown during the past decade by acquiring smaller regional and local banks.

**3. Vacant-Niche Strategy**

In this strategy, the firms concentrate on specific customer groups or end-use applications which the market leaders have ignored or bypassed. A perfect vacant niche is the one which has a sufficient size and scope for being profitable, has some potential to grow, which is well-suited for the firm's own capabilities etc.

**4. Specialist Strategy**

A specialist firm puts all its competitive effort on one technology, product or product family, end use or market segment. Their aim is to train the resource strength and capabilities of the company for building competitive advantage by having leadership in a specific area. For example, Formby's (specialist in stains and finishes for wood furniture), Blue Diamond (a California-based grower and marketer of almonds); and American Tobacco (a leader in chewing tobacco and snuff). In high-tech industries, many companies concentrate on being a leader in a particular technology. They have a competitive advantage in having a superior technological depth, highly trained technical expertise and capability of consistently winning over rivals by introducing new technologies.

**STRATEGIC MANAGEMENT****5. Superior Product Strategy**

This approach uses a differentiation-based focused strategy for having a product of superior quality or unique attributes. Sales and marketing constantly makes efforts for quality-conscious and performance-oriented buyers. Fine craftsmanship, excellent quality, new product innovations or close contacts with customers for persuading their input for developing a better product usually strengthens the superior product approach.

Example: Tiffany in diamonds and jewellery, bally in shoes, Samuel Adams in beers etc.

**6. Unique-image Strategy**

Some of the runner-up firms use strategies in such a way that they look unique from their rivals. These distinctive-image strategies may include, making a reputation for lowest-price charge, providing good quality products at a lower price, giving high quality of service to customers, designing unique attributes in a product, introducing new products and being a leader in it or using new and creative advertising.

Example: Apple computers made it easy and simple for its customers to use its Macintosh PCs.

**7. Content Follower Strategy**

The content followers purposely avoid making trend-setting moves or in aggressively trying to steal the customers from their leaders. They prefer such moves which does not lead to competitive revenge usually selecting differentiation strategies. Instead of initiating and challenging, they react and respond and they rarely go out to compete leaders for price. They simply tries to maintain their market position.

The marketers of private-label-products copy many features of name-brand products and sell them to those buyers who are price-conscious at a price lower than the well-known brands and therefore they tend to be the followers.

**3.7.7 Strategy for Weak and Crisis Business****Q29. Explain the turnaround strategies for business which are weak or in crisis situation.****Answer :**

A turnaround strategy is needed when a business is going into crisis and it is necessary to reverse the situation as early as possible. For preparing a suitable turn around strategy the management must first diagnose why the performance is poor. Is it because of the weak economy that the sales are dipping? Was the competitive strategy not chosen properly? Does operating costs were high? Was there scarcity of important resources? A good workable strategy been poorly executed? Was there an overload of debts?

The second task for the management is to decide whether the business can be saved or not.

Some of the root causes of trouble in business are low sales growth, taking to much of debt, inability to use plant capacity due to which there are huge fixed costs, failure of R and D, ineffective innovations, frequently changing the strategies, beaten up by the competitors etc.

In order to overcome these problems and achieve a successful business turn around a firm can follow any of the following actions,

#### 1. Selling Off Assets

This strategy is used by firms when cash flow is an important aspect and when the practical ways to create cash are,

- (i) Through selling of some of the assets of the company.
- (ii) Through retrenchment.
- (iii) Sometimes the assets are not sold by a crisis-ridden firm for unloading the losing operations but for raising funds to save and strengthen the remaining activities of the business.

#### 2. Strategy Revision

If a bad strategy has resulted in weak performance, the overhauling of the strategy can be done by,

- (i) Shifting to a new approach in order to rebuild the market position.
- (ii) Overhaul internal operations and functional-area strategies in order to support the same overall business strategy.
- (iii) Merge with another firm in the industry and prepare a new strategy of the new firm based on the strength.
- (iv) Reducing the core products and customers and closely match them with the strength of the firm.

The best patch depends on the existing conditions in the industry, strengths and weaknesses of the firm, its competitive abilities when compared to its competitors and the severity of the crisis.

#### 3. Boosting Revenues

The increasing of revenues aim at generating and increasing sales. There are many options like price cuts, increasing promotion, bigger sales force, better customer services and quick improvements in products. It is necessary to increase the revenue and sales volumes when,

- (i) It is not possible for the operating budget to maintain a break even and reduce expenses, and
- (ii) The key for profitability is to make complete use of existing capacity.

If the buyers are not price sensitive because of the variable features of the product then the fastest way to increase short-term revenues is to increase prices rather than volume-building price cuts.

#### 4. Cutting Costs

This strategy is best used when the sick firm's value chain and cost structure are so flexible that it can allow it to recover, when the costs of the firm are very high, when the firm is close to its break-even point, when inefficiencies of the firm can be identified and easily corrected.

This can be done by laying emphasis on paring administrative overheads, remove unimportant and low-value-added activities in the firm's value chain, get high productivity by modernizing the existing plant and equipment, delaying the unimportant expenditure of capital, and restructuring debts in order to reduce costs and stretch out repayments.

#### 5. Combined Actions

The combination turn around strategies can be used in unpleasant situations where it is essential to quick actions. Similarly, combined actions are taken when new managers are brought in and are freely allowed to make the necessary changes, the more the criticality of the problem, more would its strategic initiatives.

### 3.8 COMPETITIVE ANALYSIS

**Q30. Explain competitive analysis of an organization.**

**Answer :**

#### Competitive or Competitor Analysis

Competitor or competitive analysis means focusing company with which it wants to compete. For example, Boeing and Airbus should be interested in understanding each other's objectives, strategies, assumptions and capabilities.

If there exists strong rivalry, the firm need to understand competitors by focussing their objectives, strategies, assumptions and capabilities. This information about various dimensions enables the firms to anticipate the future responses of its competitors. The following criterias should be analysed while carrying out competitor analysis,

1. Determining future objectives of competitors.
2. Analysing competitor's current strategies.
3. Collecting information regarding competitor's assumptions about industry.
4. Carrying out competitor's SWOT analysis.

The consequences of an effective competitor analysis helps the firm to understand, interpret and predict the actions and responses of its competitors. This helps the firms to successfully compete within the industry. For an effective competitive analysis the firm must effectively gather data and information which can help them to understand their competitor's intentions and strategic implications resulting from them.

A combination of useful data and information results in competition intelligence. Competitor intelligence refers to the data and information about competitor moves, strategies, objectives and capabilities.

In order to understand the strategic posture of foreign competitors the firms should gather intelligence not only about its competitors but also about the public policies in countries globally.

The firms must also pay attention towards the complementors of any firm's products and strategies. Complementors are the network of companies that sells complementary goods or services or are compatible with the related firm's own product or service. This may include buyers and suppliers who have a strong "network" relationship with the local firm.

The concept of competitor analysis would be understood clearly by understanding the concept of market commonality and similarity of resources.

#### 1. Market Commonality

The industry usually consists of different markets. For instance, financial service industry includes markets for insurance, banks brokerage services and so on.

Market commonality basically deals with the number of markets with which the various firms and their competitors are together engaged with each other. Market commonality allows the firms and their competitors to contact with each other several times. However, when various firms compete with each other many times or in various markets then such type of competition would be called as multi-market competition.

#### Example

McDonald's and Burger King are the two firms which are competing against each other in the multiple geographic market. The multi-market competition reduces the level of competitive rivalry among the firms competing with each other in various markets not only have the ability to give response to the actions of their competitors in the market but also can give response in other markets where they have competition with the rivals. This potential might build a complex competitive Mosaic under which the actions taken by a firm in one market are framed in such a manner that they achieve the goals of other market which are not instantly evident to its rival firm. Therefore, as a result this type of potential increase the rivalry of competitors.

#### 2. Resource similarity

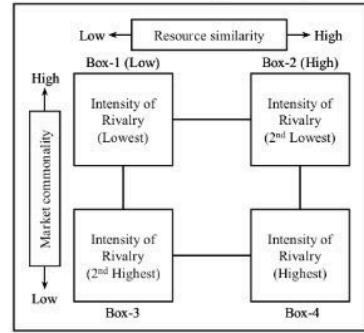
Resource similarity refers to the degree/level to which the tangible and intangible resources of a firm are similar or have similar type of resources like that of its competitor in terms of type as well as amount. Therefore, the firms which have similar type of resources might also have similar strength and weaknesses.

#### Example

During 1990's, the Apple and IBM had greater levels of resource similarity due to which they had tough competition with each other in that period, but presently their level of resource similarity has decreased.

#### Framework for Competitor Analysis

The framework for competitor analysis is derived by combining or putting together the concept of market commonality and resource similarity. The following figure represents the framework of competitor analysis,



**Figure : Framework of Competitor Analysis**

The intensity of rivalry in Box-4 is likely to be the highest as the resource similarity of two firms is at higher level and their market commonality is at lower level. While on the other hand i.e., in Box-1 the intensity of rivalry between two firms is relatively lower because the level of resource similarity is very low and market commonality is very high between both firms. The other Boxes (i.e., 2 and 3) shows the intermediate level of competition.

**SHORT QUESTIONS AND ANSWERS****Q1. What are the stages in industry life cycle?****Answer :***(Model Paper-I, Q3 | May-17, Q1(f))*

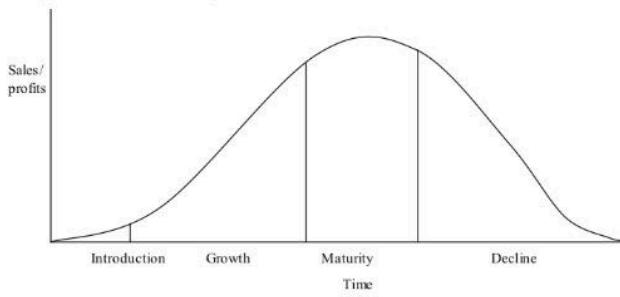
The industry life cycle refers to the four stages of,

1. Introduction
2. Growth
3. Maturity
4. Decline.

That takes place during the life of an industry. The life cycle concept can be studied from various levels ranging from the life cycle of the complete industry to the life cycle of a single variation or model of a particular product or service.

The degree of attention paid to the different generic strategies, value creating activities functional areas and overall objectives differs through out the industry life cycle.

The following figure represents the four stages industry life cycle and how the factors like generic strategies, intensity of competition, market growth rate, etc, changes overtime.



**Figure: Stages of Industry Life Cycle**

**Q2. State steps in strategy formulation.****Answer :***(May/June-16, Q1(f))*

Strategy formulation should be done very carefully because while executing the formulated strategy, problems should not take place. Strategy formulation includes various steps. Strategy formulation at the business unit level helps in recognizing the organizational primary goals and objectives, thereby it would equally focus on the complete organisation.

The following are the steps involved in the strategy formulation,

1. Defining the company mission.
2. Assessing the environment.
3. Industry analysis.
4. Evaluating the multinational environment.
5. Environmental forecasting.
6. Internal analysis of the firm.
7. Formulating long-term objectives (strategies) .

### **3.30**

### **STRATEGIC MANAGEMENT**

#### **Q3. What is competitive advantage?**

**Answer :**

*(Model Paper-II, Q1 | May/June-16, Q1(g) | May-13, Q1(e))*

Competitive advantage represents the superior position enjoyed by a firm with respect to its certain functions or factors or activities when compared to its competitors.

This superiority enables the firm to occupy suitable position in its respective industry and this superiority can be in terms of anyone of large number of functions or activities undertaken by the firm i.e., the firm can attain the competitive advantage in various ways.

For instance, Few firms are specialized in performing manufacturing activities whereas, the others may be possessing advanced technology. Such specialization may be associated with the various features of a given function.

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#### **Q4. Business Level Strategy.**

**Answer :**

*May-13, Q1(f)*

The term business level strategy refers to the managerial decisions and actions pertaining to a single business unit. In other words, it is the management's gameplan for a single business unit. The main aim of this strategy is to make the business unit competitive in the market. This strategy provides answer to question like, how can the business unit made more competitive?

Business level strategy determines the way in which the firm can successfully compete in specific markets or the way in which it should provide effective services in the public services. This depends on the products or services which are developed in the markets and low competitive advantage can be gained by the firm to accomplish the objectives of the organisation (i.e., the long-term profitability or market share growth). In the business-level strategy, the strategic decisions are associated with the Strategic Business Unit (SBU).

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#### **Q5. Maturing Industries**

**Answer :**

*April/May-11, Q1(g)*

Any industry which shifts from a rapidly growing stage to a considerably slower growth stage is referred to as "Maturing Industry". The industry is said to be the mature when all the potential buyers already represent the consumers of its products.

In the market, the demand only includes the increased sales to the existing users, where growth comprehensively relies on the capability of industry to attract the remaining buyers and to persuade the existing buyers to improve their buying abilities.

---

#### **Q6. What are the risks involved in focussed low cost or focussed differentiation strategy?**

**Answer :**

The various risks associated with focussed low cost or focussed differentiation strategy are as follows,

1. The possibility that competitors may identify the advantageous method which is similar to the focused firm's capabilities to serve the target market niche may be with highly appealing product offerings or by creating expertise and capabilities, which would meet the focuser's strengths.
2. The possibility of variations in the preferences and requirements of niche members, which would lead to the reduction of entry barriers for the competitors to enter into a focuser's market niche.
3. If the segment is very attractive, then within no time, it would be flooded by the competitors thereby increasing the intensity of competition and decreasing the market share profits.

---

#### **Q7. What are the pitfalls of differentiation strategy?**

**Answer :**

*Model Paper-III, Q5*

Following are the pitfalls of differentiation strategy,

1. If the buyers give only a small value to the distinct capabilities of the firm, then the company's differentiation strategy would receive only a small response.
2. The firm's differentiation strategy would fail, if it can be easily copied by its competitors.
3. Frequent copying would lead to the loss of uniqueness of all the companies.
4. Making attempts to differentiate the products basically depends upon something which would not lower a buyer's cost or improve a buyer's well being as considered by the buyer.
5. Over differentiating in such a way that the product quality or service level surpasses the buyer's needs.
6. Putting efforts to charge a high premium price.

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**INTERNAL ASSESSMENT****I. Multiple Choice**

1. An industry with no significant market share and highly effects the industry outcome, [ ]  
(a) Fragmented  
(b) Maturing  
(c) Emerging  
(d) Stagnant
2. The criteria for sustaining competitive advantage is \_\_\_\_\_. [ ]  
(a) Rare  
(b) Costly to imitate  
(c) Non-substitutable  
(d) All the above
3. \_\_\_\_\_ is not a generic strategy. [ ]  
(a) Best cost provider strategy  
(b) Focussed strategy  
(c) Turn around strategy  
(d) Differentiation strategy
4. Runner up firms are also known as \_\_\_\_\_. [ ]  
(a) First tier firms  
(b) Second tier firms  
(c) Third tier firms  
(d) None of the above
5. Which of the following are strategic move of industry leader? [ ]  
(a) Stay on the offensive strategy  
(b) Fortify and defend strategy  
(c) Muscle flexing strategy  
(d) All the above
6. Different types of differentiation strategies are \_\_\_\_\_. [ ]  
(a) Product  
(b) Personnel  
(c) Channel  
(d) All the above

**3.32**

**STRATEGIC MANAGEMENT**

7. The concept of competitor analysis can be understood from \_\_\_\_\_. [ ]

- (a) Market commonality
- (b) Resource similarity
- (c) Both (a) and (b)
- (d) Awareness

8. Strategies available for weak business are \_\_\_\_\_. [ ]

- (a) Selling off assets
- (b) Boosting revenue
- (c) Strategy revision
- (d) All the above

9. Economics or diseconomics of scale, learning curve effects, cost of important resource inputs are cost drivers of \_\_\_\_\_. [ ]

- (a) Cost leadership strategy
- (b) Focused strategy
- (c) Differentiation strategy
- (d) Best cost provider strategy

10. Product differentiation is done on the basis of \_\_\_\_\_. [ ]

- (a) Form and Features
- (b) Durability and Reliability
- (c) Style and customization
- (d) All the above

**II. Fill in the Blanks**

1. \_\_\_\_\_ means focussing on company with which it wants to compete.
2. \_\_\_\_\_ refers to managerial decisions and actions pertaining to a single business unit.
3. When business is going into crisis and necessary to reverse the situation as early as possible require \_\_\_\_\_.
4. Runner up firms have good amount of \_\_\_\_\_.
5. \_\_\_\_\_ aims at providing more value for customer's money.
6. Focussed strategy is also known as \_\_\_\_\_.
7. Under \_\_\_\_\_ a firm can attain a competitive advantage over its rivals by having experienced and well trained employees.
8. Cost leadership strategies are used by the companies so as to gain a position of \_\_\_\_\_ within the industry.
9. \_\_\_\_\_ is the basic level at which all the major characteristics of products operate.
10. \_\_\_\_\_ helps in developing a uniqueness in the product which is difficult to copy.

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**KEY****I. Multiple Choice**

1. (a)
2. (d)
3. (c)
4. (b)
5. (d)
6. (d)
7. (c)
8. (d)
9. (a)
10. (d)

**II. Fill in the Blanks**

1. Competitor analysis
2. Business level strategy
3. Turnaround strategies
4. Strategic flexibility
5. Best cost provider strategy
6. Market niche strategy
7. Personnel differentiation
8. Low cost producer
9. Performance quality
10. Style.

**III. Very Short Questions and Answers****Q1. What are Core Competencies?****Answer :**

The capabilities that can be employed as a source of competitive advantage for a firm over its competitors are referred as 'Core Competencies'.

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**Q2. What is Emerging Industry?****Answer :**

An emerging industry refers to that type of industry in which the firms are operating during the early stages of its formation/development.

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**Q3. What do you understand by Durability?****Answer :**

Durability refers to the rate at which the firm's basic core competencies (i.e., its resources and capabilities) depreciate or become obsolete.

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**Q4. Who are Industry Leaders?****Answer :**

An industry leader is the one who dominates the market in terms of sales and products and holds good reputation in the market and smoothly executes its activities in long-run.

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**Q5. What are Stagnant/Declining Industries?****Answer :**

Stagnant/declining industries are the industries whose market share is diminishing or which are experiencing zero growth.

## **UNIT**

# **4**

## **Alternative Strategy Development**

### **LEARNING OBJECTIVES**

After studying this unit, one would be able to understand,

- ❖ The Range of Alternative Strategies for International Environment.
- ❖ The Concept and Types of Corporate Level Strategy.
- ❖ The Concept and Types of Integration Strategy.
- ❖ The Concept, Levels and Types of Diversification Strategies.
- ❖ The Concept, Benefits and Types of International Strategy.
- ❖ The Concept of Unbundling, Offensive and Defensive Strategies.
- ❖ The Concept, Activities, Benefits and Drivers of Outsourcing.
- ❖ The Concept and Types of Merger and Acquisition.
- ❖ The concept, Nature and Types of Strategic Alliances.

### **INTRODUCTION**

The strategic alternatives acts as source for firms to enter in to international markets to carryout its operations and provide various source to select the possible alternative which suits the requirement of the firm in carryingout its operations efficiently.

Corporate-level strategy refers to the strategy which is adopted by the companies to diversify their business activities from a single business competing in single industry or product into single market. A strategy which provides the basis for firms to sell their products or services beyond the domestic market is termed as 'International Strategy'.

Diversification is a much used and much talked about set of strategies. These strategies involves all the dimensions of strategic alternatives. The various types of diversification strategies include concentric and conglomerate diversification.

A work done previously by the internal employee of an organization and the same work contracted to the outsider is usually referred as 'Outsourcing'. Outsourcing facilitates smooth flow of business operations to accomplish the task.

Strategic alliance refers to cooperative agreements between the companies. Companies which have entered in to alliance or cooperative agreement share technology, carryout research work together, make use of manufacturing facilities together, market products produced by one another or assemble final products jointly or make combined efforts to produce products or components.

**4.1 STRATEGY ALTERNATIVES****Q1. Explain the range of alternative strategies in the international environment.****Answer :****Strategic Alternatives**

The strategic alternatives acts as source for firms to enter in to international markets to carryout its operations and provide various source to select the possible alternative which suits the requirement of the firm in carrying-out its operations efficiently. The following are the range of alternative strategies for international environment. They are,

1. Merchandise imports and exports
2. Service imports and exports
3. Licensing and franchising and
4. Investment strategies.

**1. Merchandise Imports and Exports**

The primary activity for any international activity is the importing or exporting of goods such as raw materials, components parts or finished products. Merchandise of imports and exports involves less risk when compared to other activities of international activity. The merchandise of imports and exports are easy to carryout. Companies employ trade intermediaries like import and export brokers because they perform the functions of import and export for a fee and helps in minimising in-house expertise cost for the company.

Trade restrictions are imposed successfully in all parts of the world with the help of General Agreement on Tariffs and Trade (GATT) and trading blocks like European Union (EU) and the North American Free Trade Agreement (NAFTA).

**2. Service Imports and Exports**

Domestic markets for services and international markets for services are increasing rapidly. Services are usually intangible in nature. Service exports and imports possess various forms like entertainment, travel and tourism and business services. Services export strategies include management contracts and turnkey operations.

**(a) Management Contracts**

One of the most important assets a company may have at its disposal is management talent, which it can transfer internationally, primarily to its own foreign investments.

- (i) Management contracts are means by which a company may transfer such talent by using part of its management personnel to assist a foreign company for a specified period for a fee.
- (ii) The company may gain income with little capital outlay.
- (iii) Contracts usually cover three to five years, and fixed fees or fees based on volume rather than profits are most common.
- (iv) A company usually pursues management contracts when it believes that a foreign company can manage its existing or new operation more efficiently than it can.
- (v) Example, the British Airport Authority (BAA) has contracts to manage Airports in Naples (Italy) and Melbourne (Australia) because it had developed successful airport management skills.
- (vi) With management contracts, the host country gets assistance it wants without needing foreign direct investment.

**(b) Turnkey Operations**

Turnkey operations are a type of collaborative arrangement in which one company contracts another to build complete, ready to operate facilities.

- (i) Companies building turnkey operations are frequently industrial equipment manufacturers and construction companies.
- (ii) They also may be consulting firms and manufacturers that decide an investment on their own behalf in the country is infeasible.
- (iii) The customer for a turnkey operation is often a governmental agency.
- (iv) One characteristic that sets the turnkey business apart from most other international business operations is the size of the contracts.
- (v) Most contracts are for hundreds of millions of dollars, and many are of billions.
- (vi) However, large companies are vulnerable to economic downturns when governments cancel big contracts. Smaller firms often serve as subcontracts for primary turnkey suppliers.

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- (vii) Apart from public relations which is important to gaining turnkey contracts, other factors such as price, export financing, managerial and technological quality, experience and reputation are necessary to sell contracts of such magnitude.
- (viii) Payment for a turnkey operations usually occurs in stages as a project develops.
- (ix) 10 to 25% comprises the down payment, with another 50 to 65% paid as the contract progresses, and the remainder paid once the facility is operating in accordance with the contract.
- (x) Because of the long time frame between conception and completion, the company performing turnkey operations can encounter currency fluctuations and should cover itself through escalation clauses or cost plus contracts.

### **3. Licensing and Franchising**

#### **Licensing**

Under licensing, a company assigns the right to a patent or a trademark to another company for a fee or royalty. In licensing as a method of market entry, a company can gain market presence without an equity investment. The foreign company, or licensee, gains the right to commercially exploit the patent or trademark either on an exclusive or unrestricted basis.

Licenses are signed for a variety of time periods. Depending on the investment needed to enter the market, the foreign licenses may insist on a longer licensing period to pay off the initial investment. The licensee will make all necessary, capital investment such as machinery inventory and so on and market the products in the assigned sales territories, which may consist of one or several countries. Licensing arrangements are subject to negotiation and tend to vary considerably from company to company and from industry to industry.

#### **Franchising**

Franchising is a special form of licensing in which the franchiser makes a total marketing program available, including the brand name, logo, products and method of operation. In many cases, the franchiser provides supplies.

A franchiser and a franchisee act almost like a vertically integrated company because the parties are interdependent and each produces part of the product or service that ultimately reaches the consumer.

A franchiser most often penetrates a foreign country by setting up a master franchise and giving the local organization the rights to open outlets on its own or develop subfranchisees in the country or region. Sub-franchiser pays royalties to the master franchisee which then remits some predetermined percentage to the franchiser.

In some cases, franchisers enter foreign markets by franchising directly with individual franchisees. If the franchiser is not well known to many people, it may find it difficult to convince them to make investments. People usually invest in known franchisers because the name is a guarantee of quality that can attract customers.

#### **4. Investment Strategies**

The investment strategies refers to investment by firms in assets globally. The commonly used investment strategies are portfolio investment and Foreign Direct investment (FDI).

##### **(i) Portfolio Investment**

Portfolio investment is one of the international strategy for short-term financial gain. It provides certain rights to the investing business like minority ownership position in a foreign company or a part of ownership of its outstanding obligations. The various forms of portfolio investment are loans in the form of bonds, bills or negotiable notes or shares of either voting or non-voting stock in the foreign company.

##### **(ii) Foreign Direct Investment (FDI)**

The investment made by a firm in a foreign country is known as FDI. The following are the reasons for the growth of FDI,

- (a) To increase the sales and profits.
- (b) To enter the fast growing markets.
- (c) To decrease the costs.
- (d) To integrate the trade blocks.
- (e) To safeguard domestic markets.
- (f) To increase the knowledge of technology and management.

In the last 25 years, the flow of FDI has increased significantly with a remarkable growth during 1990's. In between 1990 and 2006, the outflow of FDI was about 18 times higher when compared to the outflow during 1970's which increased from US\$ 564 billion in 1980 to US \$19,636 billion in 2006.

The advanced countries were the key players in the flow of FDI. They are the main providers and recipients of FDI as 84% of FDI was given by developed countries and 64% of FDI in 2006.

Developing countries are now receiving higher FDI when compared to the FDI received in 1980. Hence, the growth and wide spread of FDI in the last few years has significantly increased globalization of production and marketing.

## 4.2 CORPORATE LEVEL STRATEGY

**Q2. What do you mean by corporate level strategy? What are the different corporate strategies?**

**Answer :**

### Corporate Level Strategy

Corporate-level strategies refers to the strategies which are adopted by the companies to diversify their business activities from a single business competing in a single industry or product market into a multiple product markets or multiple businesses. In other words, a corporate-level strategy denotes activities a company undertake to achieve competitive advantage in the market by choosing and managing various business competing in different product markets. Companies adopt corporate-level strategies with an intention to improve their revenues and profits. In order to derive good results from the corporate-level strategy, a careful evaluation of growth options is very essential. A corporate-level strategy is said to be an effective strategy when the total revenue or profits of the company after adoption of strategy proves to be higher than the total revenue or profits before adoption of strategy.

Example: Procter and Gamble (P&G) is the best example of a company which had adopted diversification strategy.

### Types of Corporate Level Strategies/Strategic Alternatives

According to Glueck, There are four corporate-level strategies or strategic alternatives. They are,

#### 1. Expansion Strategies

An organisation follows expansion strategies when it plans for future growth with expansion of business in terms of customer groups, customer functions and alternative technologies with an aim to enhance the overall performance of the organisation. Expansion strategies are quite popular.

#### 2. Stability Strategies

The organisation that adopts a stability strategy focuses on its existing line or lines of business and attempts to maintain them. This is a useful strategy in several situations. An organisation that is large and dominates its market may choose a stability strategy in an effort to avoid government controls or penalties for monopolizing the industry. Organisation may find that further growth is too costly and could have detrimental effects on profitability. Finally, an organisation in a low-growth or no-growth industry that has no other viable option may be forced to select a stability strategy.

#### 3. Retrenchment Strategies

When an organisation survival is threatened and it is not competing effectively, retrenchment strategies are often needed. There are three types of retrenchment strategies. They are,

#### (i) Turnaround Strategy

This strategy is used when an organisation is performing poorly but has not yet reached a critical stage. It usually involves getting rid of unprofitable products, running the work force, trimming distribution outlets and seeking other methods to make the organisation more efficient.

#### (ii) Divestment Strategy

In this strategy, a business is terminated and its assets are sold off. Liquidation is the least desirable retrenchment strategy because it usually involves losses for both stockholders and employees.

#### 4. Combination Strategies

Largely diversified organisations commonly use a number of these strategies in combination. For example, an organisation may simultaneously seek growth through the acquisition of new business, employ a stability strategy for some of its existing businesses and divest itself of other businesses.

Clearly formulating a consistent organisational strategy in large diversified companies is very complicated, because a number of different business level strategies need to be coordinated to achieve overall organisation objectives.

Business portfolio models are designed to help managers deal with this problem.

### Q3. Discuss how the combination strategies can be adopted sequentially in corporate restructuring. Compare the same with how they could be adopted simultaneously in corporate restructuring.

**Answer :**

### Combination Strategies

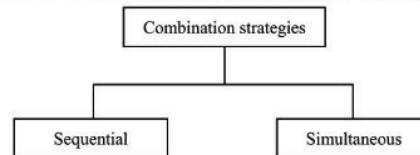
Combination strategies are also known as hybrid or mixed strategies. These strategies are the combination of stability, expansion/retrenchment strategies that can be applied either simultaneously or sequentially in business organisations.

Organisations find it difficult to grow and survive by adopting a single 'particular' strategy. The complexities in business demand for multiple strategies to deal with dynamic situations. Thus, the present day multi-business organisations must adopt multiple strategies either sequentially or simultaneously. Whenever a company intends for corporate restructuring, it uses combination strategies. There are many companies that have adopted multiple strategies to meet the challenges of the business environment. One such case of a company is discussed as under:

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Aditya Birla Group of companies have several businesses in various sectors. The company follows different types of corporate strategies in its business since 1857. It has acquired 'Novelis' to become the world's largest aluminium rolling company. In fact, it has joint ventures in many countries. The company claims to be India's first multinational company. During its business journey, the company adopted an array of combination strategies and has undergone many changes. Based on the requirements of company, combination strategies can be followed either sequentially (at different times in the same business) or simultaneously (at the same time in different businesses).



Figure

### Sequential Combination Strategies

The companies who follow sequential combination strategies are usually specialized in a particular business. There are combination strategies at different times in the same business. Consider the case of Thermax Private Ltd., which adopted sequential combination strategy.

Thermax Private Ltd., was established in 1966 to create small boilers. In 1973, due to the occurrence of oil crises, the company got an opportunity to extend its business from small boilers to coal-fired boilers. Likewise, the business got expanded from steam generation to water treatment and further to manufacturing pollution control equipment. Later on, the company laid emphasis on heating, cooling and power generation from only a single fuel source. The main aim of the company is to offer sustainable solutions in energy and environment. Thermax followed combination strategies as and when the environment of the business changed.

It not only expanded its business, but also adopted complex network of combination strategies to manage the business according to the changing and challenging environment.

### Simultaneous Combination Strategies

The companies who adopt combination strategies simultaneously have multiple businesses in many sectors. They follow combination strategies at the same time in different businesses. Consider the case of TTK Group that adopted combination strategies simultaneously.

TTK Group is the well known group of companies formed in 1928 by T.T.Krishnamachari. The various brands of the group are Prestige, Kohinoor, Kiwi, Woodward's Gripe Water etc. In the year 1997, the group planned for restructuring its core sectors by reducing the companies from 52 to only 8. For this purpose, the group used several combination strategies simultaneously in various businesses as follows,

- ❖ Joint venture with LIG of London, UK for manufacturing condoms.
- ❖ Disinvestments of many businesses such as Toy company Tortoys, Timeaids, TTK chemicals and TTK cardboard etc.

Thus, TTK group followed many strategies and was successful in operating 6 units within the group.

For any company to survive in the present business environment, it is essential to adopt combination strategies to meet the situational demands.

### 4.2.1 Creating Value Through Intensive Growth Strategies

**Q4. How do you create value through intensive growth strategies?**

OR

Explain Ansoff product-market matrix.

**Answer :**

For growth in business, firms implement concentration strategies even though these strategies are relatively simple combination strategies are used when firm's complete efforts are focused upon a restricted combination of customer groups, customer functions, alternative technologies and products.

For instance, most of the mobile manufacturers such as, Sony ericsson, Nokia, etc., started including camera, audio and video players, internet facility in their mobile phones in order to meet the diversified needs of the same customer groups.

Usually the strategic planners and marketers look for the better strategies that can help them in finding out the growth direction of their company. In the year 1957, Ansoff proposed three types of growth strategies to take up diversification. These strategies are demonstrated in the form of "product-market matrix" as follows,

Product Market	Present	New
Present	Market Penetration	Product Development
New	Market Development	Diversification

Figure: Ansoff Product-Market Matrix

**4.6**

The three types of concentration growth strategies provided by "product-market". They are,

**1. Market Penetration**

Under market penetration, more number of products are sold to the same market. The firm emphasizes mainly on existing markets with its current products by using a market penetration type of concentration.

The basic objectives of market penetration include,

- (i) To maintain or increase the market share of existing products.
- (ii) To become dominant in growth markets
- (iii) To increase the usage of products by existing customers etc.

**2. Market Development**

Under market development, some products are sold to new markets. It involves attracting new customers for existing products and thereby market development type of concentration. Here, it should be taken into account that new markets are not necessarily in the geographical sense. It can be demographic.

**3. Product Development**

Under product development, new products are sold to the same markets. By focussing on product development, new products are introduced in the same markets.

**4. Diversification**

Diversification is a much-used and much-talked about set of strategies. These strategies involve all the dimensions of strategic alternatives.

Diversification may involve internal or external, related or unrelated, horizontal or vertical and active or passive dimensions either singly or collectively.

Essentially, diversification involves a substantial change in the business definition - singly or jointly - in terms of customer functions, customer groups, or alternative technologies of one or more of a firm's business.

**4.2.2 Integration Strategies – Vertical and Horizontal Integration****Q5. Define integration. What are the different types of integration strategies?**

**Answer :**

**Integration**

The term "integration" means to club or combine. In business language integration refers to the process of combining other related activities with the present activity of the firm. Generally integration strategies are related with the value chain of the firm.

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For example, a manufacturing firm may integrate the activities, related with procurement of raw material or post production activities such as marketing, distribution, retail sales and so on. Thus it can be concluded that integration helps the firm in widening its scope in the present industry in such a manner that the firm serves the same set of customers.

In simple words integration may be defined as an expansion strategy which is being adopted by a firm to widen its scope of business. It can also be understood as a subset of diversification strategy.

**Examples for Integration**

The following are examples of Indian companies that have gone for integration of the business activities,

**(a) Reliance Industries**

Reliance industries was started by Dheeru Bhai Ambani in 1970's, initially as a textile manufacturing business. The firm's raw material, Filament Yarn (PFY) suffered from price hike and was being imported. In order to ensure a smooth supply of PFY to its factories Reliance industries setup a 10,000 tonnes PFY plant. Continuing the backward integration strategy, the firm entered into oil, gas and power sector as well. Today Reliance industries is one of the largest industry in the Indian market carrying out various businesses.

**(b) Asian Paints**

Asian paints limited is a prominent paints and emulsion manufacturing firm. For expanding its business, the firm integrated backward into the critical areas and is today producing Pentasia Chemicals, phthalic anhydride etc., which are the key raw materials for producing paints.

**Types of Integration Strategy**

The types of integration strategies are,

**1. Vertical Integration**

For answer refer Unit-IV, Page No. 4.6, Q.No. 6.

**2. Horizontal Integration**

For answer refer Unit-IV, Page No. 4.7, Q.No. 7

**Q6. What is vertical integration? What are its advantages and disadvantages?**

**Answer :**

**Vertical Integration**

When an organization starts making new products that serve its own needs, vertical integration takes place. In other words, any new activity undertaken with the purpose of either supplying inputs (such as, raw materials) or serving as customer for output. (such as, marketing of firm's product) is vertical integration.

Vertical integration could be of two types, backward and forward integration.

Backward integration means retreating to the source of raw materials while forward integration moves the organization nearer to the ultimate customer.

Generally when firms vertically integrate they do so in a complete manner i.e., they move backward or forward decisively resulting in a full integration.

#### **Advantages of Vertical Integration**

The reason for the companies to invest their resources in vertical integration is to strengthen their competitive position. The following are the advantages of vertical integration,

##### **1. Backward Integration for Greater Competition**

Backward integration can save cost only when the volume needed is big enough to seize the economies of scale of suppliers and when the production efficiency of the supplier can be matched or exceeded without any drop-off in quality and new product development capability and when the suppliers have good profit margins, the items supplied is an important cost component and the technological skills. An new product development needed can be easily gained or adapted by bringing in suppliers with the needed expertise.

Integrating backward can increase the firm's technological capabilities and give the needed expertise to establish positions in the industries and future products.

Backward integration helps in product differentiation based on competitive advantage when a company starts performing activities in-house which were previously out sourced and with a better quality, improved customer service, or in other ways increase the performance of the final products. Additionally, backward integration decreases the dependence of the company on suppliers who supply crucial components and reduce its helplessness towards powerful suppliers who tries to increase prices at every opportunity.

##### **2. Forward Integration as a Tool of Increasing Competitiveness**

Forward integration helps in getting better access to end users and in better market visibility. In many industries, independent sales agents, wholesalers and retailers take care of competing brands of same product and they don't have any loyalty to any one company's brand, they try to push whatever sells and earn biggest profits. The poor commitments of distributors and retailers can hamper the company's attempt to increase sales and market share. As a result, there would be greater inventory costs and often capacity is being underutilized. This will damage the economies of them who are close to capacity production. In such cases, it can be beneficial for the manufacturer to integrate forward into wholesaling or retailing through its own distributorships or a chain of retail outlets. This leads to directly selling to end users through internet which would reduce the distribution costs, produce a cost advantage over certain rivals, and consequently have lower selling prices for end users.

#### **Disadvantages of Vertical Integration**

The following are the disadvantages of vertical integration.,

1. It increases the capital investment in the industry thereby increasing business risk and may be having financial resource for an activity which is not worthwhile. A vertically integrated firm provides protection to its technology and production facilities. If such investments are withdrawn before the achievement of end result, the firm has to incur heavy cost. Due to this, firms tend to bring in new technology slower than the particularly integrated or non-integrated firms.
2. By integrating toward or backward, the firms are restricted into relying on its own in-house activities and sources of supply. This results in the firm having less flexibility to fulfill buyers demand which are highly flexible.
3. Backward and forward integration needs different skills and capabilities. Assembly operations, parts and components manufacturing, wholesale distribution, retailing and direct sales via internet its different business and they have different key factors for success. Selling via internet poses different set of problems. It is usually easy to use internet to sell to business customers than to consumers.

##### **Q7. Illustrate the horizontal integration strategy by emphasizing on its benefits.**

**Answer :**

#### **Horizontal Integration**

When a firm acquires (takes up) another firm dealing in the similar kind of product and process in the same industry it is known to be following the horizontal integration strategy.

Example, IDBI bank acquired United West Bank which helped it to quickly add 230 branches in its network.

Therefore, the horizontal integration results in geographical and operational/economical increase of the firms. The important means of horizontal integration are mergers and acquisitions.

An organization may go for a horizontal integration strategy due to some criteria. Firstly, in order to reduce the operation cost per unit. Secondly, to gain leverage to deal with its customers. Thirdly, to promote its product or to increase its operational flexibility. Ultimately, such an integration would lead to synergy and which would strengthen the overall market position of the firm.

**4.8****Benefits of Horizontal Integration**

A horizontally integrated firm would enjoy the following benefits,

**(a) Lower Cost Structure**

Horizontal integration basically leads to lower cost structure as the fixed operational costs is being divided among different products, which further leads to low cost per unit of production and achieves economies of scale.

**(b) Option of Product Differentiation**

Horizontal integration enables the firm to provide a wider range of similar products to its customers with the help of product bundling. Thus, it benefits the customers as they get a wider/greater range of products to choose from a single combined price.

**(c) Economies of Resources**

When horizontal integration leads to two or more firms using the same resources to develop several products in the product range, then it would result into economies of scale as the assets are being utilized to its fullest.

**(d) Reducing Competition**

Horizontal integration leads to reduced rivalry and competition in the market as the number of competing firms in the market are decreased due to horizontal integration.

**(e) Market Capitalization**

Through horizontal integration, a firm would be able to secure a greater part in the market and can make use of it in order to provide advantage to its suppliers and customers. Thus, gaining a firm grip in the industry.

Thus, it is clear that horizontal integration is an effective strategy which a firm can use to leverage its position in today's highly competitive market.

**4.2.3 Diversification – Concept, Levels and Strategies****Q8. Define diversification. Explain three different levels of diversification.****Answer :***Model Paper-II, Q9(a)***Diversification**

Diversification is a much-used and much-talked about set of strategies. These strategies involve all the dimensions of strategic alternatives.

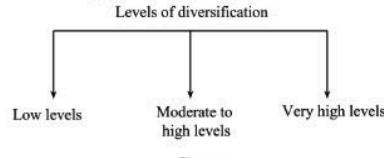
Diversification may involve internal or external, related or unrelated, horizontal or vertical and active or passive dimensions either singly or collectively.

Essentially, diversification involves a substantial change in the business definition - singly or jointly - in terms of customer functions, customer groups, or alternative technologies of one or more of a firm's business.

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**Levels of Diversification**

The different levels of diversification are presented in the following figure,

**Figure****1. Low Levels**

Under low levels of diversification, two business categories are usually being used i.e., single business or a dominant business, corporate-level diversification strategy. A single business diversification strategy is a corporate level strategy wherein 95% of the total revenue of the firm is generated from the main business area. Wm. Wrigley Jr. Company is the best example of this type, which is the world's largest producer of chewing and Wrigly has many differentiated bubble gums products but its main revenue is from chewing gum and bubble gum. Therefore any firm which aims to generate maximum part of its revenue from one single business usually follows "Single-business diversification strategy".

The dominant business diversification strategy is a type wherein about 70% to 95% of the total revenue is generated from one single business and the rest of the revenue generated from other business. United Parcel Service (UPS) of U.S is the best example of the following dominant business type. 74% of the total revenue of UPS is generated from U.S package delivery business and the other portion of its revenue is generated from its other businesses i.e., 17% from the international package and 9% from its non-package businesses.

In the low levels of diversification, there are lower levels of risk to the firms as they are specialist in one single business category and they also need not put in strong efforts to monitor the distinctive operations as there are less number of businesses.

**2. Moderate to High Levels**

Moderate levels of diversification includes related constrained and related linked diversification strategy. A related constrained diversification strategy is a type of strategy wherein more than 30% of the total revenue is generated from other businesses apart from the dominant business (core business). All the businesses are strongly linked with each other with respect to the production, distribution and technological operations. Procter and Gamble, Kodak and Mark a company are some of the examples of firms following the related constrained diversification strategy.

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The related linked businesses have more than 30% of its revenue generated from other businesses and they have only limited links among them in their operations. Examples of the firms following the related linked diversification strategy are Johnson and Johnson, General Electric (GE) and Proctor and Gamble.

**3. Very High Levels**

Very high levels of diversification includes unrelated businesses which has no links between each other. More than 30% of the total revenue is generated from the other businesses beside the main dominant business. A firm following the unrelated diversification strategy has to perform and monitor various businesses which has no links or relationship with each other. Examples of such firms include Samsung, Hutchison Whampoa Limited (HWL) and United Technologies.

Firms under very high levels of diversification perform highly skilled operations for monitoring and controlling different businesses.

**Q9. What are the different types of diversification strategies? Differentiate between the two.****Answer :**

The two types of diversification strategies are,

1. Concentric or Related Diversification.
2. Conglomerate or Unrelated Diversification.

**1. Concentric or Related Diversification**

Concentric diversification takes place when an organisation spreads/extends into a related but different business. Concentric diversification helps in relating or associating the new businesses to the prevailing businesses through markets, products or technology. The new product is produced from the prevailing facilities, products and processes.

**2. Conglomerate or Unrelated Diversification**

Conglomerate diversification occurs when an organization expand its activities into areas that are unrelated to its existing business. Firms in unstable industries that are likely to have rapid technological changes take the decision to expand into unrelated areas. The main purpose to diversify is to minimize risk and to create value by restructuring the portfolio of businesses. Unrelated diversification was much popular in 1960s and early 1970s and it can take place in terms of customer groups, customer functions or alternative technologies.

**Differences between Related/Concentric Diversification and Unrelated/Conglomerate Diversification**

<b>Basis</b>	<b>Related Diversification</b>	<b>Unrelated Diversification</b>
1. Concept	Related diversification takes place when an organization spreads/extends into a related, but different business.	Unrelated diversification takes place when an organization expand its activities into areas which are unrelated to its existing business.
2. Another Name	Related diversification is also known as 'Concentric diversification'.	Unrelated diversification is also known as 'Conglomerate diversification'.
3. Focus	Related diversification focuses on operational matters in order to obtain the benefits of synergies.	Unrelated diversification focuses on financial matters by spreading risk to various unrelated businesses.
4. Objective	The main objective of related diversification is to enhance shareholder value via 'Synergy'.	The main objective of unrelated diversification is to enhance shareholder value by profit maximization.
5. Level of Risk	Related diversification involves less risk when compared to unrelated diversification.	Unrelated diversification involves high risk when compared to related diversification.
6. Commonality	In case of diversification, commonality exists in markets, technology or products.	In case of unrelated diversification, commonality does not exist in markets, technology or products.
7. Stable Profits	In related diversification, company's profitability is found to be less stable when compared to unrelated diversification.	Compared to related diversification, company's profitability is found to be more stable in unrelated diversification.

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**4.10****STRATEGIC MANAGEMENT**

8.	Growth Rate	It ensures attainment of lesser growth rate when compared to unrelated diversification.	It ensures attainment of higher growth rate when compared to related diversification.
9	Cross-business Strategies	In related diversification, cross-business strategies exist to minimize costs, transfer skills and technology to other business, share powerful brand name etc.	In unrelated diversification, no such cross-business strategies exist.
10.	Problems Drawbacks	Limited growth opportunities, substitute products, non-existence of important resources are some of the problems of related diversification.	Lack of knowledge in corporate managers regarding the competitive situations, driving factors, strengths and weaknesses of various unrelated business.

**Q10. What is concentric or related diversification? What are its types? What are the reasons for concentric or related diversification?**

**Answer :**

**Concentric or Related Diversification**

Concentric diversification takes place when an organisation spreads/extends into a related but different business. Concentric diversification helps in relating or associating the new businesses to the prevailing businesses through markets, products or technology. The new product is produced from the prevailing facilities, products and processes.

The factors which leads to concentric diversifications are common distribution channel, marketing skills, common brand name and common customers. There are three dimensions of business definition in terms of which relatedness is observed i.e., customer groups served, customer functions carried out or alternative technologies applied.

**Types of Concentric Diversification**

There are three types of concentric diversification which are as follows,

**1. Marketing-related Concentric Diversification**

In this type of concentric diversification, same type of product is produced by using unrelated technology.

For instance, a company manufacturing soaps diversifies into beauty creams and other beauty care products which can be sold through retail stores to family consumers. Here, market relatedness is in terms of the common distribution channel for soaps, beauty creams and beauty care products.

**2. Technology-related Concentric Diversification**

In this type of concentric diversification, a new type of product or service is produced by using related technology. For instance, a life insurance company providing car insurance to customers along with life insurance. The technology relatedness is in terms of providing insurance facility to customers.

**3. Marketing and Technology-related Concentric Diversification**

In marketing and technology-related concentric diversification, a related technology is used for producing same type of product or service. For instance, furniture manufacturing company also makes doors and windows for residential and commercial developments which are sold through hardware suppliers network. Here, market relatedness is with respect to the common distribution channels for furniture, doors and windows and technology relatedness is in terms of the technology of wood processing for manufacturing of these products.

**Reasons for Concentric or Related Diversification**

The reasons for concentric diversification can be understood from the synergy concept which is a "2 + 2 = 5" phenomenon (i.e., the whole is greater or lesser than the sum of its parts). In order to attain the benefits of synergy the organisation get involved in related business. The main reasons behind the adoption of concentric diversification by organisation are as follows,

1. For attaining financial synergies with respect to transaction, cost savings and tax savings.
2. For attaining marketing synergies by increasing market power and multipoint market contact with the distribution channel partners and customers.
3. For attaining operational synergies through economies of scale wherein, the size of operations and economies of scope are increased by utilizing common basis of resources and abilities for carrying out the operations of different but related businesses.

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4. For attaining personnel synergies by using human resources with predefined common skills and competencies for another business.
5. For attaining informational synergies by the usage of common sources of information, databases and information networks.
6. For attaining managerial synergies by administering a set of related business which needs a common set of administrative skills and experience.

**Q11. What are the competitive advantages and problems of concentric diversification strategies?****Answer :****Advantages of Concentric Diversification**

The benefits enjoyed by the companies which implements concentric diversification strategy are as follows,

1. The concentric diversifications strategy helps in increasing the usage of the product or service of the company by the present customers.
2. The size or frequency of the purchase is increased through concentric diversification strategy.
3. It enhances the product location.
4. The product line is expanded in size, options and styles through concentric diversification strategy.
5. It helps in expanding the shelf-space which in turn attracts the competitor's customers.
6. It helps in increasing the efforts of promotion and initiating the price cuts.
7. It helps in advertising the new uses of the product which attracts even the non-users of the product.
8. Concentric diversification helps in offering special prices and promotions for attracting customers.

**Problems of Concentric Diversification Strategy**

Concentration strategies involve some specific problems which are as follows,

1. A firm implementing a concentration strategy is affected by the introduction of substitute products. Substitute products makes the products of the firm obsolete specifically when the firm emphasizes on only one product or product line.
2. Company implementing concentration strategy may be influenced by the disturbances in the supply of important and key raw materials.
3. The market segment sometimes becomes unpleasant because of limited growth opportunities or substitute products or non-existence of important resources. In this situation, the firm implementing concentration strategy have to be restricted to the business area and will not be able to move into another line of business.

**Q12. What is conglomerate or unrelated diversification? What are its methods? Write the reasons for adopting conglomerate strategy.****Answer :****Conglomerate/Unrelated Diversification**

Conglomerate diversification occurs when an organization expand its activities into areas that are unrelated to its existing business. Firms in unstable industries that are likely to have rapid technological changes take the decision to expand into unrelated areas. The main purpose to diversify is to minimize risk and to create value by restructuring the portfolio of businesses. Unrelated diversification was much popular in 1960s and early 1970s and it can take place in terms of customer groups, customer functions or alternative technologies.

**Methods of Conglomerate or Unrelated Diversification**

1. High-performing companies are purchased in an attractive industry.
2. Cash-poor companies are purchased which make use of additional funds to have quick turn around.
3. Company with seasonal and cyclical sales patterns is purchased which facilitates stability in total cash flow and profitability of the firms
4. Debt-free company is purchased in order to enhance the borrowing power of the acquiring firm.

**Reasons for Conglomerate or Unrelated Diversification**

The important reasons behind adoption of unrelated diversification strategies by organizations are,

1. Investments are made in different industries to spread the business risks.
2. Returns are maximized by investing in profitable businesses and selling the unprofitable business.
3. In corporate restructuring, competencies are leveraged by turning around loss making companies.
4. Economic upswings and downswings are avoided by stabilizing returns by having stakes in different industries.
5. Acquiring the benefits of opportunities provided by an expanding economy and encouraging government policies.
6. Move from business which are under threat from the business environment.
7. In order to develop industrial empires by owning businesses in varied sectors, personal choice is exercised by industrialists and managers.

#### 4.12

#### STRATEGIC MANAGEMENT

##### Q13. What are the competitive advantages and drawbacks of unrelated diversification strategy?

**Answer :**

Conglomerate diversification strategy is an unrelated diversification strategy. Firms using this strategy expand their business by way of unrelated or conglomerate diversification. Under this diversification, firms start new business units which are unrelated to existing business. For instance, Gujarat Gas Limited started Gujarat Finance Company Limited.

##### Competitive Advantages of Conglomerate or Unrelated Diversification Strategy

Some of the advantages of unrelated diversification strategy are listed down below,

1. In case of conglomerate or unrelated diversification strategy, business risk is shared among diverse industries. Compared to related diversification, correct diversification of financial and business risk takes place in unrelated diversification as investment of company under unrelated diversification are spread across those business whose value chain activities technologies and markets are highly unrelated.
2. Compared to related diversification, company's profitability is found to be more stable in unrelated diversification. Less profits in few businesses of the company get counterbalances with the high profits of other businesses.
3. In case of unrelated diversification strategy, financial resources of the company can be used to the optimum level by investing them in those industries which generate huge profits.
4. Unrelated diversification strategy is a best option when company wants to separate itself from unattractive industry and possesses no distinctive capabilities to supply to related industry.

##### Drawbacks of Conglomerate or Unrelated Diversification Strategy

The two main drawbacks of conglomerate or unrelated diversification strategy are,

1. In case of unrelated diversification strategy, the scope of getting competitive advantage is limited. In contrast to related diversification strategy, in unrelated diversification strategy no cross-business strategies exist.
2. Due to lack of competitive advantage potential of strategic fits, the performance of unrelated set of businesses is less attractive than compared to performance of individual businesses.

3. In case of unrelated diversification strategy, companies diversify by starting new unrelated businesses. In this situation, corporate managers face difficulty in managing huge diversified unrelated businesses. Corporate managers who had worked in one or two company's businesses might not possess complete knowledge about competitive market situations, driving factors, key success factors, competitive strengths and weaknesses of each businesses of the company. Higher the number of businesses a company is into and more diverse those businesses are, higher will be the difficulty to managers to manage the businesses.

#### 4.3 INTERNATIONAL STRATEGY – CONCEPT, BENEFITS AND FACTORS

##### Q14. What is an international strategy? Explain the traditional and emerging motives that cause firms to expand internationally.

**Answer :**

*Model Paper-I, Q9(a)*

##### International Strategy

A strategy which provides the basis for firms to sell its products or services beyond the domestic market is termed as 'International Strategy'. The firms tries to implement an international strategy because these international strategies can acquire potential new opportunities.

The firms can operate it business in domestic markets and international markets thereby the firms can gain revenue from its operations by selling its products and services in various markets and also provides a scope for international diversification in order to extend a product's life cycle.

##### Traditional and Emerging Motives for International Expansions

The traditional motive for firms is to acquire required resources from globally by expanding its operations. The important elements of some industries include minerals and energy. The other industries such as electronics, clothing, watch-making have transferred some of its operations to foreign countries with the intention of lowering production costs. There is a huge demand for global integration of operations and the driving force behind this is universal product demand. International operations helps in taking their culture and implementing those strategies in Indian firms helps the customers in becoming habituated to familiar trends and the firms can gain huge market share in return. It also provides a scope for global communication media.

Example: IKEA is one of the example of global brand. It sold furniture in 44 countries and having franchisees in 300 stores. The profit it generated through sales is \$ 22.2 billion. The speciality of this IKEA is furniture can be sold in components and other parts can be assembled by the consumers after purchase depending upon its requirements. This type of arrangement facilitated easier shipping and material handling and in turn led to development of the global brand.

In few industries, the technology drives more than globalisation, because huge investment is required to minimise the cost to the lowest possible when compared to fulfilling demand for domestic market.

China and India are those countries that provide strong internationalisation incentive which are totally dependent upon the demand for consumer products and services. The factors like currency fluctuations make the firms to distribute its operations in other countries this facility helps in minimising the risk involved in devaluation in one country. Indian having operations in abroad still differs in culture, politics, traditions etc., but at the same time it has the ability to carry out its operations abroad and its government facilitate Foreign Direct Investment (FDI) so that it can have strong relationship with other countries as well.

**Q15. What are the primary benefits of an international strategy?****Answer :**

The primary benefits of an international strategy are,

1. Increased market size
2. Return on investment
3. Economies of scale and learning
4. Location advantages.

**1. Increased Market Size**

The firms can increase its market size by expanding its operations internationally. The firms dealing with pharmaceuticals are doing Foreign Direct investment in China because of increased market size. The size of an international market have significant influence on firms as they can invest in R & D to gain competitive advantage. Firms usually prefer to invest in those countries which have scientific knowledge and talent so that the firms can make optimum utilisation of R&D activities by producing value-creating products and services. International strategy is the suitable alternative for firms belonging to domestic markets having low growth opportunities, for such firms international strategy helps in expanding their operations and to earn profits by having firm's operations different in countries across the world.

**2. Return on Investment**

Huge markets are crucial in acquiring returns especially for capital intensive investments like plant and capital equipment or R & D. Because of this huge investment most of the R & D-intensive industries like electronics are international. The new technology is increasing and new products sometimes cannot fulfill the customer's need and they become outdated, so the firm's role is to maintain investments in such a way that it can be recouped easily. Firms strive towards developing new products and technology but at the same time they should adopt those strategies that can help them in protecting their intellectual property rights from their competitors. With the help of reverse engineering the competitors can imitate the same product, technology etc. The role of firm is to recoup new product development easily as how competitors imitate new technology. The international expansion provides the scope for larger markets and enables the firms to enhance its operations efficiently in terms of capital investments and large scale R & D expenditures.

**3. Economies of Scale and Learning**

Expanding the firm's operations in manufacturing leads to economies of scale. Integration of critical resource functions results in optimal economies of scale. Firms can gain core competencies with the help of resources and knowledge sharing with other countries through international markets. Moreover, the firms with the help of sharing knowledge can learn new opportunities to expand its operations and to produce efficient products and services at cost effectiveness.

**4. Location Advantages**

Proper location advantage facilitates access to critical supplies and to customers, lower-cost labour, energy and natural resources. Firms strive towards location facilities in other countries to reduce the basic costs associated with the goods or services. Efficient positioning helps in taking maximum advantages of the location facilities.

The location advantages are mainly influenced by production and transportation, requirements and cultural factors.

**Q16. Explain the factors that provide a basis for international business level strategies.****Answer :**

It is the responsibility of the business to develop a competitive strategy in order to have its focus on domestic market. The home country of operation is the critical aspect in international business-level strategy and serves the base for gaining competitive advantages. Resources and capabilities which are well set-up in the home-country facilitates firms to carry out their strategies into markets which are located in other countries.

#### 4.14

According to Michael Porter, the factors which helps in international business-level strategies are factors of production, firm strategy structure and rivalry, demand conditions and related and supporting industries. It can be represented in the diagram as follows,

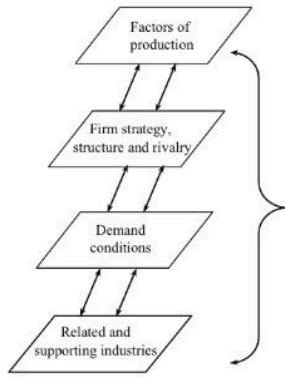


Figure: Determinants of National Advantage

The first dimension towards Proter's model is the factors of production. This dimension consists of necessary inputs such as land, labour, natural resources, capital and infrastructure. The basic factors include natural and labour resources and advanced factors include digital communication systems and a highly educated workforce. The other production factors include generalized and specialized. A country possessing both advanced and specialised production factors can better support the industry needs.

Countries try to develop advanced and specialised factors due to inefficient critical basic resources. For instance, few of the Asian countries like South Korea possess inadequate natural resources but provides strong work ethic, number of skilled engineers and systems of large firms to develop expertise manufacturing.

The second dimension for Proter's model is demand conditions which is mainly influenced by the nature and size of buyer's need belonging to the home country pertaining to industry's goods or services. A large market segment helps in developing scale-efficient facilities.

The third dimension to Proter's model is 'related and supporting industries'. For instance, Italy is one of the leader in shoe industry due to related and supporting industries. This industry aimed at providing a quality leather in order to construct shoes and related products. Consumers even prefer to visit Italy for purchasing this leather.

#### STRATEGIC MANAGEMENT

The fourth dimension of Porter's model consists of firm strategy, structure and rivalry. For instance, in Germany the efficient training system strives towards continuous product and process improvements. In Japan, cooperative and competitive system provide the basis for cross-functional management of complex assemble operations. In the United States, tough competition in the segments of computer manufacturers and software producers resulted in the development of the industries.

Thus, the four dimensions of Porter helps in analysing the environmental or structural attributes of a national economy to promote national advantage. Firms can attain competitive advantage if they execute proper strategy. In international business strategy, the firm gives due importance to the factors like cost leadership, differentiation, focused cost leadership, focused differentiation and integrated cost leadership.

##### 4.3.1 Types of International Strategies

**Q17. Discuss the various types of international strategies.**

**Answer :**

According to Barlett and Ghoshal, international strategies have been broadly categorised into four types. They are,

1. International Strategy
2. Multi-domestic Strategy
3. Global Strategy and
4. Transnational Strategy.

##### 1. International Strategy

Usually, the firms makes use of an international strategy if they aims to exploit their competencies by spreading opportunistically into international markets/ foreign markets. The examples of International companies include Mc Donalds, Kellogs, Google, Haier, WalMart and Microsoft. International model depends on local subsidiaries in each country for managing the business as directed by its head quarters.

Traditionally, key elements of the firm's value chain like research and development or branding were centralized at its head quarters. For instance, Yahoo! created the core architecture by locating its web products in San Jose, California. This site is a home for several individuals who develop its web-junctions and online services. Thus, an international strategy creates sense especially when a firm has a core competence which a local competitors in other markets may lack and if industry conditions does not push the firm to improve its cost controls or local responsiveness then, international strategy establishes reasonable operational costs and higher profits.

**UNIT-4 ALTERNATIVE STRATEGY DEVELOPMENT****4.15****2. Multi-Domestic Strategy**

A multinational company which adopts a multidomestic strategy is called as locally responsive company or multidomestic company. This strategy helps each of its foreign country operations to act fairly independent. The subsidiary of the company in their respective local markets possess the authority/power to create and market products which can respond directly to the preferences of local customers. Example of company following multidomestic strategy is Johnson & Johnson.

The companies which makes use of multidomestic strategy develops a value chain which provides each country's operations, the discretion to respond to its local cultural, legal-political and economic environments. For example, when government provides incentives for local manufacturing, then the local unit will be able to construct/establish its own plant and when local customers prefers to deal directly with people in the sales process instead of depending on the mass-media for information then the local company can develop a sales force.

**3. Global Strategy**

Firms make use of a global strategy which aims at maximizing integration. This decision motivates the company to create and market standardized products like razor, blades or service like package delivery especially for particular global market segment. This strategy drives the companies to think with regard to designing the products for a world market, producing them on a global scale in some highly efficient plants and marketing those products by using focused distribution channels. Therefore, companies which make use of 'global strategy' considers the world as one market by assuming that no differences exists among countries with respect to tastes and preferences of the consumer and in case if there is a difference, the consumers will sacrifice them when they have an opportunity to purchase a comparatively higher quality product at lesser price.

Efficient goals of the global strategy have implications for arranging value chain in a systematic manner. R&D, production and marketing activities emphasis on the most suitable locations which may not be in the same country and fully optimized global value chain which usually locate each activity in the best possible place. Finally, the decentralized activities resulted from value chain are coordinated through formal linkages.

**4. Transnational Strategy**

Transnational strategy is the most suitable direct response for the growing globalization of business. This strategy assumes that the today's environment of interconnected consumers, industries and markets needs on MNE for determining the ways to design a value chain which utilizes location economies to coordinate value activities to use core competencies effectively and to make sure that value chain directly manages local responsiveness pressures.

The first order conditions of the transnational strategy integrates the local responsiveness sensitivity of the market with the competitive efficiency of global integration, which combines the features of multinational as well as global strategies.

A transactional strategy has a distinct aspect which differentiates it from other forms of strategy. Particularly, transnational strategy is the reason of interactive "global learning" through which an MNE improves valuable skills for its world wide operations and uses them to enhance its core competencies and spread these innovations all over its global operations.

The main aim of this strategy is to create a never ending renewal, enhancement and exchange of ideas across the borders.

**4.3.2 Modes of International Expansion****Q18. What are the various modes available for international expansion?****Answer :**

The different strategies/modes for entering international markets/expansion are,

**1. Exporting**

Since, many countries do not offer a large enough opportunity to justify local production, exporting allows a company to centrally manufacture its products for several markets and obtain economies of scale.

**2. Wholly Owned Subsidiary**

Many companies export directly to their own sales subsidiaries abroad, sidestepping independent middlemen. The sales subsidiary assumes the role of the independent distributor by stocking manufacturing products, selling to buyers, and assuming the credit risk. The sales subsidiary offers the manufacturers for control of selling operations in a foreign market.

**3. Licensing**

Under licensing, a company assigns the right to a patent or a trademark to another company for a fee or royalty. In licensing as a method of market entry, a company can gain market presence without an equity investment. The foreign company or licensee, gains the right to commercially exploit the patent or trademark either on an exclusive or unrestricted basis.

**4. Franchising**

Franchising is a special form of licensing in which the franchiser makes a total marketing program available to the franchisee including the brand name, logo, products and method of operation. In many cases, the franchiser provides supplies also.

A franchiser and a franchisee act almost like a vertically integrated company because the parties are interdependent and each produces part of the product or service that ultimately reaches the consumer.

#### 5. Local Manufacturing

A common and widely practiced form of entry is the local production of a company's products. Many companies find it advantageous to manufacture locally instead of supplying the particular market with products produced elsewhere.

#### 6. Contract Manufacturing

Under contract manufacturing, a company arranges to have its products manufactured by an independent local company on a contractual basis.

#### 7. Management Contract

One of the most important assets a company may have at its disposal is management talent, which it can transfer internationally, primarily to its own foreign investments.

- (a) Management contracts are means by which a company may transfer such talent by using part of its management personnel to assist a foreign company for a specified period for a fee.
- (b) The company may gain income with little capital outlay.
- (c) Contracts usually cover three to five years, and fixed fees or fees based on volume rather than profits are most common.
- (d) Example, the British Airport Authority (BAA) has contracts to manage Airports in Naples (Italy) and Melbourne (Australia) because it had developed successful airport management skills.
- (e) A management contract may also allow the supplier to gain foreign experience, increasing its capacity to internationalize.

#### 8. Turnkey Operations

Turnkey operations are a type of collaborative arrangement in which one company contracts another to build complete, ready to operate facilities.

#### 9. Assembly Operations

By assembly operations the international firm locates a portion of the manufacturing process in the foreign country. Assembly consists only of the last stages of manufacturing and depends on the ready supply of components or manufactured parts to be shipped in from another country.

#### 10. Integrated Local Production Operations

Since the building of a plant involves a substantial outlay in capital, companies go for it only when the demand arises. Out of many number of reasons for establishing factories in foreign countries the primary reason is to take advantage of lower costs in a country, thus providing a better basis for competing with local firms or other foreign companies already present.

#### 11. Joint Venture

Under a Joint Venture (JV) arrangement, the foreign company invites an outside partner to share stock ownership in the new unit. The particular participation of the partners may vary with some companies accepting either a minority or majority position.

#### 12. Third Country Location

This entry strategy occurs between those countries where commercial transaction does not take place due to political reasons.

#### 13. Mergers and Acquisitions

A domestic company selects a foreign company and merges itself with the foreign company in order to enter international business.

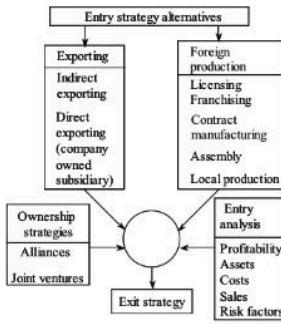


Figure: Global Strategies

#### 4.4 UNBUNDLING – OFFENSIVE AND DEFENSIVE STRATEGIES

**Q19.** Discuss briefly about unbundling. Explain the offensive and defensive strategies.

OR

Explain the offensive and defensive strategies.

**Answer :** (Model Paper-II, Q9(b) | May-13, Q5(b))

#### Unbundling

If a company divides its activities in a country into various companies, then it is termed as unbundling. A local manufacturing plant can be established separately from the sales subsidiary. If a local manufacturing plant is established separately then the firm can opt for different ownership strategies like Joint venture in one operation and full ownership in other operation. This type of unbundling is possible in the larger markets like United States, Germany or Japan. Unbundling also helps the firm to operate several companies or product lines side by side. Global firms giving global orders to their product divisions feels that each division must create its own entry strategy for important markets.

### Offensive Strategies

Offensive strategies are used as a key drivers of competitive advantage. On the other hand defensive strategies are used for protecting the competitive advantage and are rarely a base for creating the advantage.

Creating an edge over competitors requires time on the basis of competitive circumstances. It can be much longer if it takes a lot of time for the firm to change its technology, network systems or production capacity. Competitive advantage is built quickly through offensive moves. The longer it takes, it is more likely that the competitors will spot the move, identify the potential in it and start counterresponding.

Therefore, for the times to sustain their competitive advantage they need to emerge with follow-on offensive and defensive moves one after the other in order to protect their market position and retain favour of customers.

### Basic Types of Offensive Strategies

Many a times, every company should go for an offensive move to improve its market positions. These moves/attacks may or may not be aimed only at a particular rival and are motivated by the desire to increase sales and market share at the expense of other firms. There are six basic types of an offensive strategy.

#### 1. Initiative to Match or Exceed Competitors Strengths

There are two instances where a firm can take an initiative to overcome or neutralize the competitors strength and weaknesses.

- (a) When there is no other choice but to try and reduce the strong rival's competitive advantage.
- (b) Despite of strengths or weakness which the rival have, there is a chance for the firm to gain profitable market share at the expense of its rivals.

Attacking a rival's strength may be necessary when the rival has a superior product to offer or when it has superior organizational resources and capabilities.

The classic scope of having competitive advantage would be by offering the product with equal features but at lower cost. Which brings opportunity for acquiring good market share if the competitor is not able to bring down its price. Thus by convening the buyer that, the product is equally good, the challenger could be benefitted.

Using the price-aggressive challenge can be of more potential and sustainable by first achieving cost advantage and then reducing the price.

Other strategies to attack the competitor's strength include usage of advanced technologies and make the rival's products obsolete, adding new features which are appealing to the customers of rivals running T.V. ads, constructing a major new plant capacity in the backyard of rival, matching the rival model for model by expanding the product line, developing customer service capabilities which rivals does not have.

However, it is not that easy to challenge the strengths of rivals. The success can be achieved in very long time.

#### 2. Capitalizing on Competitors Loopholes

Taking an initiative for exploiting the rival's weakness can provide a better chance for success than challenge the strengths of the rivals. The competitor could be benefitted as the rival wouldn't be ready with any kind of defense mechanism.

The following are the options for attacking weakness of rivals,

- (a) Competitors must serve the customers of rivals who are dissatisfied with the quality, features and product-performance of rivals product.
- (b) Trying to win customers of those rivals who have a weak brand recognition.
- (c) Making a special sales service for the customers of rivals who have a surpass customer service.
- (d) Trying to emphasize sales to buyers in those geographical regions where a rival has a weak market there as is putting less competitive effort.
- (e) Paying special attention to those segments of buyers which remains unexplored by the rivals.

#### 3. Multi Dimensional Offensive Initiatives

A company can take up simultaneous initiatives and launch them more or less at the same time across a wide geographic region. The rival will try to take up many defensives actions to protect its customers and thus his attention will be divided. Such multifaulted offensive can be best successful when the challenges has a new attractive product or service to be introduced or has a good brand awareness and distribution channels for attracting the buyers.

#### 4. End-run Offensive

The main idea of an end-run offensive is to move around competitors, capture unoccupied or less occupied markets, change the rules of the competitive game in favour of aggressor by,

- (a) Introducing new products which redefines the market and terms of competition.
- (b) Building strong position by launching initiatives in geographic areas where close rivals have little or no presence in market.

**4.18**

- (c) Trying and creating new segments by introducing products to meet the needs of the buyers in a better way by having different attributes and performance features in the product.
- (d) Bringing in new technologies, replacing older product or service.

**5. Guerilla Offensive**

Small challengers who lack resources and market visibility use guerilla offensive for attacking its competitors. The guerilla offensive is based on the hit and run principle, here the competitor tries to capture the sales and market share whenever and wherever it gets the chance. It involves making sudden and random attack on the leader's customers by using tactics like occasional reduction in price or surprising the rivals through intensive promotional activity (20% discount for one week to take away customer), conducting special campaigns to attract buyers away from those rivals who have problem with strikes or in meeting the delivery on time.

Guerilla offensive can promote their product quality when its rivals have quality control problems or give guarantees to delivery times during such times when the rival is facing problem with their delivery schedules and provide technical support to buyers who get frustrated with the poor support offered by industry leaders.

**6. Preemptive Strikes**

This involves the initiative of taking the advantageous position as a beginner which the rivals are discouraged from doing.

The move can be preemptive because of its one-of-a kind nature i.e., the one who strikes first acquires the competitive assets which the rivals can't match readily. The following are the ways in which the firm can increase its competitive capabilities through preemptive strikes,

- (a) Secure an exclusive or dominant access with the best distributors of a particular geographic region or country.
- (b) Obtaining the most favourable site in a heavy travelled through space, at a new interchange or intersection, in a new shopping mall, in a natural surrounding, close to cheaper transportation or raw material market outlets etc.
- (c) Making exclusive partnerships, long-term contracts or acquisition for getting the most reliable, high-quality suppliers.

It is not necessary for a preemptive move to totally blocks its rivals from following or copying in order to become successful. It can just give a prime position to the firm which cannot be easily taken.

**Defensive Strategies**

For answer refer Unit-IV, Page No. 4.18, Q.No. 21.

**STRATEGIC MANAGEMENT****Q20. What are the best targets for offensive tracks?****Answer :**

An analysis is to be done by the offensive minded firms to know which rivals are to be challenged and how to challenge. The following are the best targets for making offensive attacks,

**1. Vulnerable Market Leaders**

Offensive attacks can be made when a company that leads the market is not a true leader in serving the market. The leaders vulnerability can be seen when there are unhappy buyers, an inferior line of products, weak competitive strategy for low-cost leadership or differentiation, emotional commitment to old technology, outdated plant and equipment, preoccupation with diversification into other industries, and medium or decreasing profits.

For the challenger to be successful, it is not necessary that, they should become the market new leader; the challenger can simply 'win' by becoming a runner-up.

**2. Leading and Runner-up Firms with Weakness**

When the challenger has good resource strength and competitive capabilities it can have an especially attractive target of runner-up firms which are weaker. The challenger can make use of its strengths to exploit the weakness of runner-up firms.

**3. Struggling Firms which are Almost Winding up**

Challenging those rivals which are finding it difficult to survive, is even more easier as it can further destroy their financial strength and competitive position which will result in their exit from the market.

**4. Small Local and Regional Firms with Limited Capabilities**

A challenger who has broader capabilities can easily take away the biggest and best customers of small times as they have limited expertise and resources. Especially those customers who have sophisticated requirements and may be already thinking to change their supplier to a more better supplier with more full-service capability can be easily grabbed by the challengers.

**Q21. What are defensive strategies? Explain the different forms of defensive strategies.****Answer :****Defensive Strategies**

The defensive strategies are used for reducing the risk of being attacked, weaken the effect of attack that occurs, and influencing challengers to aim at attacking other rivals. While these strategies does not improve competitive advantage of the firm yet they are useful in protecting the competitive position, protecting the process of initiation of its most valuable resources and capabilities, and defend whatever competitive advantage it has.

**UNIT-4 ALTERNATIVE STRATEGY DEVELOPMENT****4.19****Forms of Defensive Strategies**

Defensive strategies can be of two forms. They are,

**1. Blocking the Choices Available to Challengers**

The most frequent approach to defend the firm's competitive position is to take such actions which restricts the challenger to initiate a competitive attack. There are many obstacles that obstructs the path of challengers. They are,

- (a) To reduce the threat of rivals attack with a better technology a defending firm would take up alternate technologies.
- (b) A defending firm can add new features, new models, or increase its product line in order to reduce the gaps and vacant niches for the world be challengers.
- (c) It can stop the rivals to attack by preventing their lower price effort's attack by having its own economy-priced options.
- (d) It attempts to discourage buyers from switchover to competitors brands by extending the warranty by coverages, providing free training and support services, enhancing their capabilities to deliver spare parts to users more faster than the rivals, providing coupons and samples to buyers who are more likely to experiment with and making an early announcement about new product releases and price ranges so that the buyers wait for the product and does not switch to some other brand.
- (e) Challenging the quantity or safety of products of rivals is regulatory proceedings.

Example, pharmaceutical firms often make use of such tactics to delay the launch of new drugs by its competitive.

- (f) It can give huge discounts or better financing schemes to its dealers and distributors in order to discourage them from experimenting with other suppliers, or it can also convince them to exclusively handle the firms' product line and coerce the competitors to use other distribution channels.

**2. Being Expressive to Rivals about Impending Retaliation**

The aim behind signaling the challengers of that strong retaliation is likely to take place in the due course time of attack is either to totally prevent them from attacking or trying to divert them to less threatening opinions. That could be achieved by making aware challengers that their attack will cost them more than its worth.

The challengers can be signaled by following ways,

- (a) Making public announcement regarding managements high commitment for maintaining the firm's present market share.

- (b) Making public promises to go along with competitors price or conditions.

- (c) Maintaining huge cash and marketable securities.

- (d) Occasionally making a strong counter-offensive at the moves of weak competitors, to increase the firm's image as a strong defenders.

**Q22. Explain the various offensive and defensive strategies that a telecommunication company can follow.****Answer :***May/June-12, Q5(a)*

Telecommunication industry is one of the fastest growing industry with greater untapped potential is it. The Indian telecommunication sector covers the largest number of customers. Besides, this new players are also entering into the Indian telecom market. Such as Vodafone Reliance Telecom, Bharti Airtel, Aircel, and so on.

One of the recent entrant in the Indian telecom sector is Uninor. In order to create a good market hold expand and survive in the cut throat competitive telecom market, the company may make use of either one or more of the following offensive strategies.

**Offensive Strategies to be Employed**

Offensive strategies are used as a key drivers of competitive advantage. On the other hand defensive strategies are used for protecting the competitive advantage and are rarely a base for creating the advantage.

Creating an edge over competitors requires time on the basis of competitive circumstances. It can be much longer if it takes a lot of time for the firm to change its technology, network systems or production capacity. Competitive advantage is built quickly through offensive moves. The longer it takes, it is more likely that the competitors will spot the move, identify the potential in it and start counterresponding.

Therefore, for the times to sustain their competitive advantage they need to emerge with follow-on offensive and defensive moves one after the other in order to protect their market position and retain favour of customers.

**(a) Strategy to Match/Exceed the Competitors Strength**

There are two instances where a firm can take an initiative to overcome or neutralize the competitors strength and weaknesses.

- (i) When there is no other choice but to try and reduce the strong rival's competitive advantage.
- (ii) Despite of strengths or weakness which the rival have, there is a chance for the firm to gain profitable market share at the expense of its rivals.

Therefore, The Uninor incorporation may start providing the customers same/similar offers, as being provided by its rivals such as vodafone, Airtel and so on. This needs cutting down the profit margins and provided matching services to the customers.

#### (b) Targeting the Competitors Weakness

The best way to gain market share for Uninor telecom is to target the unsatisfied/customers from its rivals. For example, if an existing Vodafone customer is frustrated about a high post-paid bill, then the Uninor incorporation may attract such customer by providing similar service at a cheaper package.

#### (c) Multidimensional Strategy

Uninor may initiate a multi-dimensional offensive strategy which is a combination of end run offensive strategy, and Guerilla offensive.

#### (d) End Run Offensive

This strategy includes occupying the new markets.

#### (e) Guerilla Offensive

It is based on the chit and run principle. Uninor telecom may suddenly lower the mobile recharge price by 20% to 30% for a week. Such moves would help it to attract price sensitive customers from rival telecom providers.

### Defensive Strategies

The defensive strategies are used for reducing the risk of being attacked, weaken the effect of attack that occurs, and influencing challengers to aim at attacking other rivals. While these strategies does not improve competitive advantage of the firm yet they are useful in protecting the competitive position, protecting the process of initiation of its most valuable resources and capabilities, and defend whatever competitive advantage it has.

#### Expressing Retaliation Strategy

As soon as uninor incorporation captures/gains a good market share, it may make use of this strategy in order to hold its customer base. This strategy requires uninor to openly express to its rivals that if they reduce the prices, it is ready to do the same, in order to hold the market share.

#### Example

If Reliance telecom is planning to offer free unlimited internet service for one week, then Uninor management may make a public announcement that they too are offering the same. This would prevent the rivals from going for a price war.

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## 4.5 OUTSOURCING STRATEGY – CONCEPT AND ACTIVITIES

**Q23. What do you understand by outsourcing strategy? Explain the various activities involved in the process of outsourcing.**

**Answer :**

#### Outsourcing Strategy

The term ‘outsourcing’ implies obtaining or processing from external sources the products or services which are usually the part and parcel of the organisation. In simple words, when a firm or company undertakes in-house operations like accounting, janitorial, call-center and at the same time, another company is also engaged in the same process/operations then this process is termed as ‘outsourcing’. A company whose internal business activities are outsourced is termed as ‘client company’ and a company who provides outsourcing services is known as ‘outsource provider’. Outsourcing is an innovative management strategy which the companies all over the world utilizes in the different types of services like finance, purchasing, information systems, marketing and information technology. The outsourcing is not an emerging or recently emerged concept but, it is an extended concept of the long-standing practice of ‘subcontracting production activities’.

Presently, the outsourcing concept has been widened and is used as an important business strategy world wide due to the following reasons,

- (a) Less costs of more reliable transportation
- (b) Increased excellency expertise and
- (c) Instant growth and development in telecommunications and computers.

#### Activities for Outsourcing

The different activities involved in the process of outsourcing are as follows,

##### 1. Decision to Outsource

For taking the decision to outsource, the client firm should determine what needs to be outsourced and prepare a business plan which explains the reasons for outsourcing. This decision is taken at the strategic level and needs the board’s approval. The process of outsourcing deals with the transfer of individuals and the sale of assets to the supplier. After the scope of services to be outsourced is determined the next step is to select an outsourcing provider (company).

##### 2. Proposal to Supplier

After short listing the suppliers a ‘Request For Proposal’ (RFP) is issued to these suppliers. Which includes the request for proposal and price.

### 3. Rating of Suppliers

The competition is held among the suppliers wherein, the clients rates the suppliers proposals. This process may incorporate certain meetings (directly) for explaining the client requirements and the supplier's response. After this, only few suppliers will be left. Atlast the suppliers submit a "Best And Final Offer" (BAFO) for the client to take finalise the selection decision to one supplier.

### 4. Negotiation Process

The process of negotiation considers all the documents submitted by the suppliers i.e., the original RFP, the supplier proposals, BAFO submission and transfers them into contractual agreement between the client and the supplier. The final documentation and the pricing structure is decided under this stage.

### 5. Finalization of Contract

The essence of outsourcing deal is the contractual agreement which states clearly how the client and the supplier (outsource provider) works together. The outsourcing is a legally binding document which relies mainly on the relationship between the client and the supplier.

The outsourcing deal contains three important dates which each party signs up i.e., the contract 'signature date', the effective date' at which the contract terms and conditions become active and the service commencement date' from when the supplier commences the services.

### 6. Transition Process

Transition process starts from the effective date and continues till the four months of service commencement date. This process is especially meant for the staff transfer and the take-on of services.

### 7. Transformation

Transformation deals with the implementation of the set of projects to execute the Service Level Management (SLM), to minimize the Total Cost of Ownership (TCO) or to perform new services. The main focus on transformation is towards 'standardization' and 'centralization'.

### 8. Ongoing Services Delivery and Termination or Renewal

This is the final step of agreement in which the contract is executed. The client firm at the end of the contract term must decide whether to terminate or renew the contract.

The process of termination may either deal with the taking back the services (insourcing) or transferring the service to other supplier (outsource provider).

**Q24. Explain the concept of outsourcing. Identify some activities that can be outsourced by RTC bus complexes and depots.**

**Answer :** (Model Paper-III, Q9(a) | May/June-12, Q5(b))  
**Outsourcing**

The term 'outsourcing' implies obtaining or processing from external sources the products or services which are usually the part and parcel of the organisation. In simple words, when a firm or company undertakes in-house operations like accounting, janitorial, call-center and at the same time, another company is also engaged in the same process/operations then this process is termed as 'outsourcing'. A company whose internal business activities are outsourced is termed as 'client company' and a company who provides outsourcing services is known as 'outsource provider'.

### Outsourcing Activities by RTC Bus Complex and Depots

Let us take the example of APSRTC [Andhra Pradesh State Road Transport Corporation. It is one of the biggest corporation with the largest fleet of buses in the whole world. Its main goal is to provide safe, clean and comfortable transportation services at an reasonable fare to its passengers.

A bus depot is a key business wing of the corporation whose major functions include the following,

1. Allocation of buses and duties to the crew.
2. Collecting and processing cash deposited by the bus conductors/drivers.
3. Despatching buses as per the planned schedule.
4. Maintenance and servicing of the buses.
5. Providing good parking facilities for the buses.
6. Issuing of the tickets, and other functions, therefore, APSRTC may outsource few of their jobs/functions which may include,

#### (a) Vehicle Maintenance Facilities

Maintenance of vehicles is an important function of the RTC depot. The corporation may build good tie-ups with good service centers, or motor dealers to provide specialized maintenance services. Therefore, the corporation would have sufficient time to focus upon other developmental activities.

#### (b) Allocation of Buses and Duties

The corporation can also outsource this job to the IT company, which uses those software applications which allocate the daily duties among the crew members, as per the requirement. Making use of such service providers may help the corporation to make use of its personnel services to the fullest.

**(c) OPIS**

OPIS stands for On-line Passengers Information System. The RTC complex can outsource this job to the IT expert service providers. Such service system would help the passengers to know the details about the reservation status from all the bus stations which are being included in the network. Thus, it would help to build a network between the corporate office, zonal, regional and district offices.

**(d) E-procurement**

Maintenance and repairs of a large fleet of buses require the procurement of a large number of automobile spare parts. The corporation may go for E-procurement of the spare parts. This may require the services of a good IT service provider. The process will also include securing digital signatures from interested suppliers and the issuing of the E-certificates.

**(e) E-auction**

The APSRTC is also planning to go for the auctioning of its unused/spare vehicles and other products, on a pilot basis. It has proposed to avail the services of MSTC, a government agent, for e-auctioning at the two zonal stores (i.e.,) Uppal Bus Depot and Vizianagram Depots respectively.

Therefore, it can be concluded that outsourcing is an effective tool for gaining leverage in the industry. However, an organization needs to take into consideration the genuinity and service quality of the service provider, before outsourcing any process.

**4.5.1 Growth, Drivers, Benefits and Limitations of Outsourcing****Q25. Define outsourcing. Explain the growth and drivers of outsourcing.**

**Answer :** (Model Paper-I, Q9(b) | April-15, Q5(a))

**Outsourcing**

The term 'outsourcing' implies obtaining or processing from external sources the products or services which are usually the part and parcel of the organisation. In simple words, when a firm or company undertakes in-house operations like accounting, janitorial, call-center and at the same time, another company is also engaged in the same process/operations then this process is termed as 'outsourcing'. A company whose internal business activities are outsourced is termed as 'client company' and a company who provides outsourcing services is known as 'outsource provider'.

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**Growth of Outsourcing**

Outsourcing refers to the process of assigning work to an outside company instead of carryingout it in house i.e., inside the company. The outside company is termed as an 'outsource provider' and the in-house or company who outsources its services is known as 'client company'. The concept of outsourcing has gained wider acceptance and greater demand in its earlier stage only and its growing day-by-day very rapidly due to many aspects like efficiency, quality, accuracy, reliability and effectiveness of the services rendered.

For further development and growth, outsourcing companies must provide its services at the higher-quality level through which they would be able to gain popularity and also the goodwill, name and reputation thereby more and more clients are getting attracted towards outsourcing.

Growth of outsourcing is being getting reduced recently, because of decline in the stock-market and recession in the U.S and Europe. According to a survey on growth of outsourcing sector in India it has been found that nearly 25% of the total exports of the country contributes towards the India's growth but it is coming down slowly due to global financial crisis.

Outsourcing sector has also undergone certain problems which left a negative impact on its growth. For example: The recent grand by satyam computer services around \$1 million.

Despite of the difficulties, outsourcing sector is growing considerably because foreign companies continues to outsource its services with a view to minimise its costs savings.

**Drivers of Outsourcing**

The following are the important drivers of outsourcing as follows,

**1. Cost Cutting**

The client firm can get effective services at reduce costs. Cost cutting is one of the important reasons for the companies to outsource their services activities as the process of carrying out in-house manufacturing of these services would be expensive than outsourcing there activities due to economies-of-scale.

**2. Better Operational Efficiency**

Outsourcing can increase the operational efficiency of the client firm in different ways like,

Operations are carried out managed and tackled by those companies which have expertise and excellent in carrying out processes effectively. This further increases the overall efficiency which results in properly taking care of cost and operations.

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**3. Accident Skilled Manpower**

The top-level companies have shifted their services to the low-cost countries locations in search of abundant skilled manpower and resources.

For example India many companies are shifting in India due to the large number of cheap labour availability. This is because larger number of graduates are ready to work at minimum less salaries when compared to the graduates at U.S.

**4. Scarcity of Internal Resources**

Quite a few times there exists scarcity of internal resources for performing certain operations. In such a case, foreign company can outsource that specific activity or service to the service/outsource provider.

**5. Accelerate Speed and Time-to-Market**

Through outsourcing the client company would be able to minimise its cycle time and develop time-to-market for any product. This further increases the overall efficiency and productivity.

**6. Maximum Resource Utilization**

When the client company begins outsourcing certain activities to outsource provider then, foreign company can make use of its internal resources for some other activities. Thereby, there is no wastage of time and expenditure towards unimportant activities. Thus, there will be optimum utilization of resources and assets on its core activities.

**7. Focus on Innovation and Core Competence**

Company lays greater emphasis and stress upon the core competence with an aim to achieve and fulfill the core business objectives, as the non-core activities are already been outsourced.

**8. Greater Flexibility and Competitiveness**

If company starts concentrating upon the most important and specific functions with high-specialization then, it helps in increasing the company's potential and can achieve its desired goals and needs in an effective manner.

**Q26. Examine the merits and limitations of outsourcing system of a corporate entity.****Answer :***May-17, Q5(b)***Merits/Benefits of Outsourcing**

The companies usually opt outsourcing as it provides several benefits which are as follows,

**1. Cost Savings**

The first and foremost reason behind opting for outsourcing is cost savings especially for 'labour'.

**2. Gaining Outside Expertise**

Apart from providing an access to broad base skills is the outsourcing concept also acts as a means of innovation and creativity to enhance products, processes and services.

**3. Enhancing Operations and Service**

A company who renders all types of services for client company may possess flexibility in production by which the client company can win orders instantly by introducing new products and services. Thus, outsource provider acts an important source for the client company to make improvements in operations and service.

**4. Emphasizing on Core Competencies**

The client company can reallocate its human, physical and financial resources when the outsourcing company/provider brings its core competencies to the supply-chain.

**5. Acquiring Outside Technology**

The client company can outsource to the excellent service providers with which it can acquire outside technology and does not have to invest in new technology. This in turn helps in minimising the risks.

**Demerits/Limitations of Outsourcing**

The outsourcing also has certain disadvantages which are as follows,

**1. Increased Transportation Costs**

The outsourcing company delivers the products/goods of client company. So, as per the distance covered by the firm the costs of the delivery increases considerably.

**2. Loss of Control**

If the managers lose control on few operations then, it may result in increase in the costs as it is very difficult to examine and control these operations.

**3. Creating Future Competition**

Intel outsourced a core competency (i.e., chip manufacturing) to AMD as Intel was not able to fulfill early demands. But, AMD, an outsourcing company created future competition by becoming a major competitor after it started manufacturing/producing its own chips.

**4. Negative Influence on Employees**

The morale or spirit of the employees may fall if the functions or operations are outsourced to the outsource provider by the client company especially, when their friends lose their jobs.

### 4.5.2 Emerging and Changing Environments of Outsourcing

**Q27. What are the emerging and changing environment of outsourcing?**

**Answer :**

The concept of 'outsourcing' started in the economic trade period particularly in the areas where, production of manufactured goods took place. In the starting Eastman Kodak Company in the year 1989 was been given the contract for outsourcing certain services like purchasing, launching and supporting its information processing systems. This resulted in opportunities for the companies of outsourcing the technology services. Thus, by 1990 many multiparty contracts took place with respect to infrastructure management, enterprise application development and ERP implementations. Thus, substantial growth was witnessed in the activities of outsourcing.

#### New and Innovative Business Opportunities

Organizations are facing new challenges in order to be more profitable in the present world of competition. Outsourcing is a new and innovative business opportunity as it lays more emphasis over core functions of the companies. New opportunities are being generated with the event of internet and related communication, infrastructure, providing global delivery models.

Factors that resulted in the growth and development of outsourcing strategies are as follows,

1. There is a considerable increase in the scope of outsourcing such as call-center management, offshore software development and business processor.
2. Risks and rewards related with the outsourcing has been shared.
3. Arrangements is made for strategic partners.
4. E-business is being used in order to perform new and highly innovative outsourcing relationships.
5. A new concept 'web 2.0' has emerged with powerful influence over collaborative, knowledge sharing and work environment.

With the use of this new 'web 2.0' technology business organisation can change the market place to outsource.

#### Important Features of New Method of Outsourcing

New method of outsourcing is termed as 'outsourcing 2.0' which has resulted in new challenges and new opportunities for business and it differs from the previous method of outsourcing.

Some of the necessary changes that took place in outsourcing 2.0 are,

<b>Traditional Methods</b>	<b>Modern Method</b>
1. Traditional method of outsourcing involves making a big deal with single party.	1. Under this method, lesser value contracts are being made by the multiparty.
2. Greater emphasis is over labour arbitrage.	2. Greater emphasis is over added value and efficiency.
3. This method comprises of vendor management.	3. It is a partnership approach.
4. It has minimum access to internal knowledge.	4. This method shares both intellectual property and strategic consulting.
5. Under this method, old techniques and measures are being used.	5. It makes use of innovative and new technology.
6. Many suppliers are there under this method.	6. Each and every size of outsourcing provider is available.
7. Low levels of risk because limited number of operations.	7. Greater emphasis is laid on core functions.
8. Easy access to core applications.	8. This method is tool-band approach.

**Q28. Write in brief about Business Process Outsourcing (BPO). Explain benefits and types of BPO.**

**Answer :**

#### BPO Definition

The allocation of one or more intense processes of business to an outsider is called as Business Process Outsourcing (BPO). The outsider who is an external provider provides the product/service design and quality to the business based on the agreed terms and conditions. It is an independent company but works in collaboration with the parent company.

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### **Importance/Benefits of Business Process Outsourcing (BPO)**

The Business Process Outsourcing (BPOs) provide services to a wide variety of businesses. They are as follows,

1. Outsourcing activities provide a great help for the content development activities in different areas such as network consultancy and management, engineering, design and animation, biotech research, etc.
2. Business Process Outsourcing (BPO) undertakes activities of human resources which include education and training, recruitment and staffing, administration of benefits, hiring activities, payroll services and management of records.
3. Outsourcing in financial sector includes reporting and analysis of financial transactions, risk management services, tax consultation issues, transactions of accounting and billing services.
4. Services in administration department which include processing of tax and claims, translation, transcription, management of assets and documents.
5. Credit/debit card services, processing of cheques and transaction processing which come under payment services.
6. BPOs are also extending help in customer care which involves customer analysts, marketing of database, tele marketing and tele sales, marketing and sales on web, inbound call center and administration of marketing and sales.

### **Types of BPO Business Models**

There are three kinds of BPO business models. They are,

1. Transactional BPO
2. Comprehensive BPO
3. Niche BPO.

#### **1. Transactional BPO**

In this model the customer has to bear the risk involved in the process as it involves the customer keeping track of the predominant part of the in-house process. Only a single element of the whole process is controlled by the transactional BPO.

#### **2. Comprehensive BPO**

All the transactional operations involved in the process and administrative issues are controlled by the comprehensive BPO model. This model is accountable for the huge amount, nearly 70 percent of the output produced. Comprehensive BPOs undertake deals that continue for a huge period of time i.e., for 7-10 years. In this model the vendor acquires the assets of the buyer and even hires most of those employees.

#### **3. Niche BPO**

In niche BPO model we find a close coordination between the buyer and the vendor. The vendor may ask for services from the employees of the customers. The BPO in this model is focused on enhancing the efficiency of the process and invests in the customer's process. Unlike transactional BPO, it controls up to 3-4 aspects of the process.

### **Q29. Analyze the emerging trends in BPO industry.**

**Answer :**

*April/May-11, Q4(b)*

### **Growth of BPO Industry**

BPO is a rapidly changing industry, which is present in about 200 countries, with various vertical industries and providing employment opportunity to more than 2 million people. In 2006, International Data Corporation (IDC) stated that all the countries throughout the world has spent around \$420.7 billion on BPO and in 2011 it was estimated that \$650 to 677.2 billion would be invested in BPOs. This industry contributed about \$11 billion to \$ 13 billion with an average growth rate ranging between 36% to 38% in 2010.

Generally the market emphasizes on highly developed economies. Duke university's Offshoring Research Network (ORG) organized a survey for service outsourcing in 2006. This survey included 537 firms of U.S, U.K, Germany, Netherlands and Spain. This survey revealed that 55% were already following offshoring 18% are planning to offshore their business and 27% were no where interested in offshoring. From this survey it was concluded that the market is huge because about 70% of firms of developed economies are active and highly probable customers of BPO.

In 2004, the BPO offshoring constituted about only 2% of worldwide BPO contract value, where as in 2008 it was estimated to range between 5% to 6%. The major contributor to the BPO industry is IT industry i.e. it contributes (about 40%) Therefore, there exists a strong relationship between them. The other contributing industries are financial services -17%, communication (Telecom Industry)-16%, consumer goods/services-15% and manufacturing-5%. Apart from the corporations government also forms the market. For instance, Nortel Networks (Telecom Industry) has outsourced its human resources, payroll accounts Payable training to price water house coopers in the year 2000.

The global BPO market for supply side includes various countries and all the possible horizontal business functions. Various countries which forms the BPO offshoring market are India, China, Philippines, Canada, Mexico, Ireland. India plays a leading role in global BPO industry and in 2007, its revenue was \$5.5 billion constituted by \$8.0 billion in export and \$1.1 billion in domestic market.

**Key Trends in BPO Industry**

In 2007, the outsourcing industry experienced several downfalls mainly due to the mortgage crisis and falling value of US dollar inspite of that, the outsourcing growth predictions were very high.

**1. Extreme Cutting of Unavoidable Costs by the Vendors**

Large companies holds the capability of obstructing the foreign exchange convertibility but they cannot stop the danger of lower competitiveness in the long run. The billing rates raised by large vendors and focused, niche providers cannot recompensate the losses incurred by exchange rate and it also further needs to increase its productivity for sustaining the margins.

Companies not only concentrates on optimizing cost heads but they also focus upon optimizing administrative or marketing cost and earlier management used to emphasize only on growth, but at present quality of growth is also taken into consideration.

**2. Vendors Violently Classifies the Client Base**

The role of US market in BPO is decreasing. The value notes analysis reveals that US based buyers formed only 56 percent of the whole BPO and KPO contracts in 2007. Whereas Nasscom analysis reveals that for IT outsourcing . US led business constituted about 67 percent in the year 2006-2007. The contribution was expected to decrease further in the future years, due to various reasons.

**3. Greater Emphasis on the Mid Market Opportunity**

Initially, the midmarket segment of US and Europe were poorly served, due to various reasons like absence of knowledge regarding offshoring, displeasing sizes of the deals for premium vendors etc.,

The increases maturity of early buyers among the midmarket companies is motivating them to behave in a particular way and adopt costly services of large vendors. Whereas increased global competition motivates the large vendors to go beyond the fortune lists.

**4. Major reorganization probably because smaller undistinguished BPO's will be badly affected.**

The smaller BPO's characterized by lower, commoditized services are greatly/severely affected by margin pressures. Hence, players cannot increase the prices very easily and cannot pay the required, in order to keep up their best talent.

The vendors who are successful in providing distinguished offerings, can attain the higher position in value chain and can experience new growth or exit options through funding and merger and acquisitions by larger players. The firms who cannot overcome low price or low cost game, will slowly disappear from the competitive market.

**5. Small Cities Reflects Brightly**

The cost and talent pressures, compels the vendors to move to the small-cities fastly. Nearness and correlation with large cities, improved infrastructure of the education helps in the discovery prior There III destinations such as Bhopal, Nagpur, Nasik, Vishakapatnam, Ahmedabad etc., the emerging hotspots also furnishes.

- (a) Lower attention
- (b) Low operating costs
- (c) Competitive talent vat lower wages when compared to the desired locations
- (d) Advantages of infrastructures and realty.

**6. Domestic Business will be Hot and Occurs**

The domestic market for IT and BPO in India, did not encourage the large companies which emphasized on exports. Although they ignored till this point, later on they focused on the potential opportunity.

Most of the large domestic deals specifically in telecom went to the multinational vendors. Anyhow, the rapidly growing Indian economy is leading to the emerging of new opportunities in retail, manufacturing, publishing media etc.

**4.6 MARKET DIVERSIFICATION****Q30. Discuss in detail about market diversification.****Answer :**

Market diversification involves introduction of products in the same market even when there exists differences in the product technologies.

When a firm decides to enter into a new market with a new product, it is usually considered as riskier strategy. The firm should have both product and market competencies to successfully achieve its objectives.

**Example**

1. The Scooter manufacturing company 'Bajaj' entered into the Bike segment in 1990s.
2. The heavy vehicle manufacturer 'Tata' entered into car market in 1990s.

Earlier, diversification was viewed in terms of the product-market relationship between the present business and the new business in the same, related or unrelated products and markets. If the new business is in similar products/markets, then there will be similarity in the characteristics of new business and the current business. This is to ensure that the value can be created by sharing resources or transferring resources between them.

There are many sources of value-creating synergies from product-market diversification. Some of them include the following,

**1. Market Penetration**

For answer refer Unit-IV, Page No. 4.6, Q.No. 4, Topic: Market Penetration.

**2. Market Development**

For answer refer Unit-IV, Page No. 4.6, Q.No. 4, Topic: Market Development.

**3. Product Development**

For answer refer Unit-IV, Page No. 4.6, Q.No. 4, Topic: Product Development.

**4. Unrelated Diversification**

For answer refer Unit-IV, Page No. 4.11, Q.No. 12, Topic: Conglomerate/Unrelated Diversification.

**5. Backward Vertical Integration**

For answer refer Unit-IV, Page No. 4.7, Q.No. 6, Topic: Backward Integration for Greater Competition.

## 4.7 MERGER AND ACQUISITION STRATEGIES

**4.7.1 Merger – Concept, Types and Steps**

**Q31. What is a merger? What are the types of mergers? Write the reasons/motives for mergers.**

**OR**

**What is merger? Explain the circumstances under which the mergers are appropriate.**

(Refer Only Topics: Mergers, Types of Mergers)

**Answer :** (Model Paper-III, Q9(b) | April/May-14, Q5(a))

**Mergers**

A merger refers to integration or combination of two or more companies but, only one company continues its business. The other company which discontinues its business transfer its assets, debts, etc., to the company which is in existence.

**Types of Mergers**

A company can merge with another company in four different types. They are as follows,

1. Horizontal merger
2. Vertical merger
3. Conglomerate merger
4. Congeneric merger.

**1. Horizontal Merger**

When companies engaged in same type of production, distribution or area of business, merge with each other, it is known as horizontal merger.

**Example**

Combination of two book publishers or two pharmaceutical manufacturing companies.

In this type of merger, companies expand their business and enjoy economies of scale and reduces competitors.

**2. Vertical Merger**

When companies involved in different stages of production or distribution of a product amalgamate, it is known as vertical merger. Companies mainly merged vertically in order to reduce cost of searching for prices, contracting and also to eliminate the cost of communicating.

**Example**

Combining a automobile manufacturing company and automobile marketing company or combining eatables manufacturing company and its packaging company.

Vertical merger can also exist in the form of forward and backward merger. When a specific company merges with its suppliers, it is backward merger and if a company merges with its customers, it is a forward merger.

**3. Conglomerate Merger**

When companies engaged in different fields of business activity is known as conglomerate merger.

**Example**

Combination of cement manufacturing, electronic products, insurance investment and advertising agencies.

Conglomerate firms must have knowledge about research, production, marketing, etc., then only a conglomerate merger becomes successful.

**4. Congeneric Merger**

When companies engaged in same industry but neither in same business line nor a customer or supplier of each other.

**Example**

A pharmaceutical company producing antiulcer drugs merging with company producing anticancer drugs.

Congeneric merger is useful for these companies who are in sales and distribution channels to benefit customers of both the businesses.

**Reasons/Motives for Mergers**

There are many reasons/motives behind mergers but some of them do not contribute for economic development of the firm. Some reasons which do not create value are,

**(a) Strategic Benefit**

Strategic benefit mainly aims at achieving long term plans and implementing them. When a firm desires to enter or expand in a particular industry, acquisition provides more advantages than internal expansion. Some of them are,

- ❖ It prevents competitors and avoids competition.
- ❖ It can pass over several stages of expansion in a short span of time.
- ❖ It ensures less risk and less cost.
- ❖ Merging in a saturated market helps in expansion and replacement which is more suitable than developing a new firm through internal expansion.

**(b) Economies of Scope**

A company can broaden its scope by a particular set of skills or assets which it possesses.

**(c) Economies of Vertical Integration**

Economies of vertical integration can be accomplished when companies engaged in different stages of production merge together. However, vertical integration is not suitable in all situations. If a company performs all functions on its own, then benefit of outsourcing is lost.

**(d) Complementary Resources**

Each firm specializes in certain activities. When firms with complementary resources merge together, they can effectively utilize the resources and produce innovative products.

**(e) Managerial Effectiveness**

In the event of merger, managerial effectiveness also increases. When inefficient managerial team is replaced by an effective managerial team, it leads to the progress of the firm. Another advantage would be in the form of compatibility between the interests of the managers and the shareholders. With the help of merger an effective discipline of management can be maintained.

If poor performance leads to the risk of acquisition of a firm, the managers will struggle and improve their performance.

**(f) Diversification**

The main reason for merger is to reduce risk through diversification. Diversification implies dividing or spreading the business in different product lines. Reduction of risk in the merging concept depends on correlation between the earnings. Correlation explains how the two variables are related or dependent on each other. When there is a negative correlation it implies low risk and positive correlation implies high risk.

**Q32. Discuss in detail the steps involved in merger.**

**Answer :**

*April-15, Q5(b)*

When a firm is interested in merging or amalgamating with another firm it must follow some legal aspects before merging. The process of merger involves following steps,

**1. Evaluation of Proposal by the Companies**

When an idea for merger comes in mind, the management of interested firms evaluate the benefits and drawbacks of the plan, reactions of shareholders and other members and implication of tax is also assessed. If it is advantageous for concern parties, then only it is proceeded.

**2. Deciding the Exchange Ratios**

At the time of merger, some shares are given to the shareholders of target company. So, it is necessary to decide a reasonable exchange ratio. Usually, some elements are used to identify the exchange ratio such as market value per share, potential earnings, book value per share, etc.

**3. Acceptance of Board of Directors**

After analyzing the merger plan completely and deciding the exchange ratios, scheme of merger is passed on to the specific board of directors for their acceptance.

**4. Acceptance of Shareholders**

When scheme of merger is accepted by board of directors, it is placed in front of shareholders. According to Sec. 391 of Indian Companies Act, plan for merger must be accepted in meeting of members with not less than 3/4 of majority of both the companies and if merger involves exchange of shares it must be approved by 90 percent of shareholders of target company.

**5. Consideration of Interests of the Creditors**

It is also included in Sec. 391, that plan must be accepted by majority of creditors in numbers and 3/4 in value. Hence, interests of creditors are also taken into consideration in the scheme of merger.

**6. Acceptance of the Court**

An application needs to be filed in court after its approval from all parties for its sanction. Before giving any judgement, the court will consider the perspective of all members. In order to protect the interest of related parties, the court may accept, alter or reject the merger plan.

**7. Acceptance of Reserve Bank of India**

According to Sec. 19(1)(d) of the Foreign Exchange Regulation Act, 1973, it is necessary to get the permission of RBI for issuing any security to a person, who is living in abroad. Therefore, in merger RBI guidelines have to be followed by the acquiring company to issue its shares in exchange. Sec. 29 regulates the acquisition of any Indian company in which share of nonresident is more.

**Q33. What are the advantages and disadvantages of mergers? Write the reasons for failure of mergers.**

**Answer :**

**Advantages of Mergers**

The following are the advantages of mergers and acquisitions,

1. A firm can get an easy access to the market and technology through mergers and acquisitions.
2. It become easy to gain access to patent rights and technology through mergers and acquisitions.
3. With the help of mergers and acquisitions, the firm can get the firms ownership and control immediately on the factories, technology, employees and distribution networks, of the acquired firm.
4. In mergers and acquisitions, when the industry had attained the optimum capacity level in the host nation, then this strategy will assist the economy of the host country.
5. The firms can attain more profits with the formulation of international strategy.

**Disadvantages of Mergers**

The following are the disadvantages of mergers and acquisitions,

- (a) Many companies have landed themselves into financial and other problems due to indiscriminate acquisitions.
- (b) If the evaluations are not done properly, then the decision of acquisition can be wrong or ineffective.
- (c) If an enterprise is taken over, its problems are also usually taken over by the firms.
- (d) Certain units which have been acquired may have problems like obsolete technology, old plant, surplus labour etc.
- (e) In some situations, restrictions are levied by the host countries on the acquisition of domestic firms by the foreign firms.

**Reasons for Failures of Mergers**

Following are the reasons for failures of mergers,

- 1. Many companies usually tends to pay too much to acquire a firm, that is more than its estimated value. This may result in failure of mergers.
- 2. Holding greater expectations from the mergers, usually leads to the downfall.
- 3. Ignoring to take into consideration the pros and cons of a mergers consequence usually results its failure.
- 4. Not having appropriate knowledge and going for diversification would result in the failure of the merger.
- 5. Incurring debts and loans, while acquiring a firm by moving beyond one's own purchasing capacity.

**4.7.2 Acquisition – Concept, Advantages and Disadvantages**

**Q34. What is acquisition or takeover? What are its features? Distinguish between mergers and acquisitions.**

**Answer :**

**Acquisition/Takeover**

Acquisition is an activity in which one company controls the other company. The company which controls is known as acquiring company and the other company which is under control is target company. In acquisitions, business is purchased through cash, stock or combination of both. Acquisition is also known as takeovers.

Acquisitions are something different from mergers. In mergers, CEOs of both the companies agree for combining their firms resource assets and liabilities whereas in acquisitions, the company which is acquired may not be willing to combine its resources with the acquiring firm.

Nature of acquisitions is mainly of two types, they are,

- (i) Friendly and
- (ii) Hostile.

**Features of Acquisition**

Following are the features of acquisition,

- 1. Responsible for documents of the company.
- 2. Becoming owner of the assets like plant, division or entire company by purchasing.
- 3. Taking the authority/power of company by purchasing voting shares in large quantity i.e., 51 percent or more.

**Example of Acquisition**

The Walt Disney Company in 1996 made a major acquisition. It purchased Capital Cities/ABC Inc., so that it can expand its control in entertainment industry.

**Differences between Mergers and Acquisitions**

Point of Differences		Mergers	Acquisition
1.	Meaning	Merger is an integration of two or more companies but only one company continues its business.	Acquisition is an activity in which one company controls the other company.
2.	Agreement	In mergers, the CEO's of both the companies agrees for combining their business.	In acquisitions, the company which is acquired may not be willing to combine.
3.	Financing	Mergers are financed by stock swap.	Acquisitions are financed by cash and debt combination.
4.	Types	Horizontal, vertical, conglomerate and congeneric mergers are the different types of mergers.	Horizontal, vertical, related and cross-border acquisitions are the different types of acquisitions.
5.	Nature	Merger is a narrow, technical term of specific legal procedure which may or may not follow acquisition.	Acquisition is a generic term used to explain a transfer of ownership.
6.	Ownership	In mergers, one company purchases the stock of other company and second company closes down its business.	In acquisitions, one company controls the other company by purchasing voting shares in large quantity i.e., 51 percent.
7.	Example	Example: ITC Kakatiya and Sherton merged into a single entity.	Example: Walt Disney company acquired capital cities/ABC Inc.
8.	Advantages	Mergers helps in preventing competitors. <ul style="list-style-type: none"> <li>❖ It helps in combining the resources and efforts of two companies.</li> <li>❖ It minimizes companies operating costs and increases their growth level.</li> </ul>	Acquisitions reduce competition by acquiring the competing firm.
10.	Disadvantages	A company faces cultural and managerial problem while merging two firms into one.	The acquiring firm may have aggressive culture and the acquired company may have different culture of its own.

**Q35. Define acquisition. What are the different types of acquisitions?**

**OR**

**What is acquisition? Explain the circumstances under which the acquisitions are appropriate.**

**Answer :**

*May-13, Q5(a)*

**Acquisition**

Acquisition is an activity in which one company controls the other company. The company which controls is known as acquiring company and the other company which is under control is target company. In acquisitions, business is purchased through cash, stock or combination of both.

**Types of Acquisitions**

There are four types of acquisition strategies, they are,

1. Horizontal acquisitions
2. Vertical acquisitions
3. Related acquisitions
4. Cross-border acquisitions.

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**1. Horizontal Acquisitions**

When a company acquires another company which is also involved in same industry is known as horizontal acquisition. Firms engaged in horizontal acquisition can increase their market share by utilizing cost-based and revenue-based synergies. Usually, horizontal acquisitions are more effective, when assets of both acquiring company and acquired company are combined.

**2. Vertical Acquisitions**

When a company acquire its supplier of raw material or distributor of final product, it is known as vertical acquisition. Through vertical acquisition, a firm can acquire control over other parts of the value chain. Vertical integration can also take place in business.

**3. Related Acquisitions**

When a company acquires another company from a highly related industry, it is known as related acquisition. There are many complications in valuing a related acquisition because synergies cannot be achieved easily. Firms which engage in related acquisition to develop and increase their market share must identify each and every political aspect in general, so that acquisition strategy can be utilized.

**4. Cross-border Acquisitions**

When acquisition made between head quarters of different companies situated in different countries, it is known as cross-border acquisition. The main purpose of cross-border acquisition is to remove entry barriers but it is difficult to arrange and manage, due to the differences in foreign cultures.

**Q36. What are the different ways in which the takeover/acquisition can be accomplished? State the advantages and disadvantages of takeovers/acquisitions?**

**Answer :**

**Ways for Accomplishing Takeover**

A takeover can be accomplished in different ways, such as,

**(a) Open Market Purchase**

In this type of takeover, shares of listed company in stock market are purchased by the acquirer. Usually, hostile takeovers are done in this manner which are against the will of management of target company.

**(b) Negotiated Acquisition**

In this type of takeover, shares of the target company are purchased by the acquirer from one or more promoting shareholders. Negotiated acquisition is also known as friendly takeover.

**(c) Preferential Allotment**

In this type of takeover, the target company makes a preferential allotment of equity shares for the acquirer. Undoubtedly, it is a friendly acquisition which is done to give support to acquirer in the company and get funds invested in the company.

Generally, takeovers create a dispute or debate. Many economists have supported the takeovers and many have criticized it.

**Advantages of Takeovers**

1. Takeover helps the firm in utilizing economies of scale in different business operations, such as production, marketing information systems, financing, etc.
2. It also helps in replacing an inefficient management team with an effective team, efficient workers of both the companies are combined to form a new management team.
3. Some economists have proclaimed, that takeovers are effective measures to protect the interest of shareholders.
4. Takeovers also help in generating economies of operations, which ultimately leads to synergistic benefits by combining two different businesses which are efficient in specific operation.
5. Takeovers save the companies which were managed inadequately by the incompetent managers.

**Disadvantages of Takeovers**

1. Takeover is regarded by some economists and authors as a destructor of jobs and local communities.
2. Usually, the commitments in takeovers are not fulfilled.
3. Takeovers involve many costs in it, such as remuneration to lawyers, management officials and all other people who support in preparing and carrying out a bid.
4. Peter Drucker believes, that takeovers destroy the confidence of employees.
5. Takeovers may also lead to redistribution of wealth which causes a reduction in efficiency.
6. Takeovers also involve agency costs which are related to agency conflicts that arise in the process of takeover.

**Q37. Examine the recent trends in Mergers and Acquisition strategies.**
**Answer :**
*May/June-16, Q5(b)*

There has been dynamic changes in the merger and acquisition strategies of companies world wide. Consolidation of business is a major driver for mergers and acquisition globally. For example, there are more than 5,000 pharmaceutical firms in India and more than 2,000 I.T firms. Thus, there is huge scope for consolidation of these businesses through merger or acquisitions. The following factors are driving firms to opt for merger and acquisitions in India,

- (i) Big business houses are making their core business activity strong through takeover of smaller firms in the similar industry.
- (ii) A recent trend noticed is that many firms go for merger and acquisition for gaining competitive advantage, tactical advantage or to enjoy tax benefit accruing out of it.
- (iii) Many sick or loss making firms find mergers and acquisition as the only viable option to bail them out.
- (iv) In recent years, financial institutions have been proactive in forcing loss making firms to initiate merger and acquisition to survive.
- (v) An interesting trend in merger and acquisition is the presence of investment bankers who help in negotiating the merger and acquisition process between both the companies.

**Recent Merger and Acquisition Trends in India**

Prior to 1990 very few mergers or acquisition took place in India. However after the liberalization of business in 1991, Indian firms faced stiff competitions from foreign firms. To remain competitive and to survive many firms initiated merger and acquisition process.

For example, during the time period between 1999 and 2010 more than 9,200 merger or acquisitions took place in India. India's leading business conglomerate Tata group alone has initiated 126 mergers during the time period 1998 upto 2008.

The following table shows a list of mergers and acquisitions by Indian firms,

S.No.	Company Name	Value in Millions
1.	Tata Motors buys Jaguar and Land Rover (UK)	2.3 Billion
2.	ONCC Videsh buys Imperial Energy (UK)	2.8 Billion
3.	Tata Chemicals buys British Salt (UK)	13 Billion
4.	Airtel acquires Zain (Africa)	10.7 Billion
5.	Tata Steel buys Corus (UK)	12.2 Billion

**Future Trends in Merger and Acquisition**

It is predicted that there would be accelerated merger and acquisitions in the pharma, automobile and the textile sectors. Shortening of credit cycles would also encourage firms to initiate merger and acquisition's of non-core businesses.

**4.8 STRATEGIC ALLIANCES – CONCEPT AND TYPES**
**Q38. Define strategic alliance. Discuss its types.**
**Answer :**
**Strategic Alliance**

Strategic alliance refers to a cooperation between two or more companies. Alliance partners have common goal and shared control and make contributions to attain mutual benefits/advantages.

Strategic alliance may be defined as a cooperative strategy wherein companies integrate few of their resources, skills and capabilities with an intention to build competitive advantage.

International strategic alliance is an alliance form by a domestic company with the foreign company or companies.

**Types of Strategic Alliances**

Strategic Alliances are of three types. They are,

1. Equity Strategic Alliance
2. Non-equity Strategic Alliance and
3. Joint Venture.

**1. Equity Strategic Alliance**

Equity strategic alliance refer to an alliance where in two or more companies hold different amount of shares in the company which is established by them by contributing their resources and abilities to develop a competitive advantage. Most of the Foreign Direct Investment (FDI) made by Japanese and US companies located in China are completed by forming equity strategic alliance. For instance, Citigroup Inc. and Nikko Cordial Corporation entered into a comprehensive strategic alliance in order to start Japan's one of the leading financial services groups and to make combined franchise possible. Combined franchise is essential to grab new growth opportunities giving importance to Japanese culture and business practices. Compared to Nikko Cordial Corporation, Citigroup Inc. had high percentage ownership in this comprehensive strategic alliance.

## 2. Non-Equity Strategic Alliance

In case of non-equity strategic alliance, two or more companies enter into a contractual relationship with an intention to share their distinctive resources and capabilities to develop a competitive advantage. No separate independent company is formed in non-equity strategic alliance so companies entering into non-equity strategic alliance do not hold any equity share. Non-equity strategic alliances are informal alliances and require limited partner dedication than compared to equity strategic alliance and Joint-Ventures. These features of non-equity strategic alliances are making it inapplicable to complicated projects which need sharing of knowledge between alliance partners to achieve success.

Licensing agreements, supply contracts and distribution agreements are various types of non-equity strategic alliances. Hewlett-Packard (HP) licenses few of its intellectual property by entering into strategic alliances. Particularly, outsourcing commitments are made through non-equity strategic alliance. For example, Dell and many other computer companies do outsourcing of their products and usually enter into non-equity strategic alliances in order to specify what kind of relationship they have with the firms to whom outsourcing is done.

## 3. Joint Venture

Joint Venture is one of the type of strategic alliances where in two or more companies combined to establish a legally independent company in order to share some of their resources and abilities to create a competitive advantage. Joint ventures are usually formed with an intention to improve companies capabilities to compete in the unpredictable competitive environment. Forming joint venture is an effective method to build long lasting relationship and to share tacit knowledge. Tacit knowledge can be acquired through experience i.e., tacit knowledge can be gained by partner firms by working together in a joint venture. Most of the firms gain competitive advantage through tacit knowledge.

The firms forming a joint venture hold equal percentage of share and share equally to the working of joint ventures. For example, Polo Ralph Lauren Corporation, Geneva-based watch and jewelry company Companie Financiere Richemont AG where in each firm hold 20% of share in the new company. The intention behind forming a joint venture is to produce and distribute products across the world through Ralph Lauren boutique stores. The joint venture formed is the Polo's first entry into a fine jewelry and luxury watches business and it is the Richemont's first joint venture formed with fashion designer.

Joint ventures might be the effective kind of cooperative arrangement where firms are required to being together some of their unique resources and capabilities to develop a competitive advantage and where partner aim at entering into highly uncertain markets.

The following figure depicts three types of Strategic Alliances,

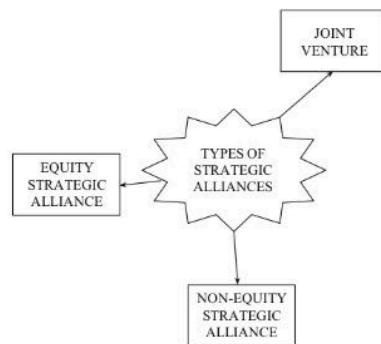


Figure: Types of Strategic Alliances

### 4.8.1 Benefits and Pitfalls of Strategic Alliances

#### Q39. State the advantages and disadvantages of strategic alliances.

**Answer :**

#### Advantages of Strategic Alliances

There are various reasons due to which companies get allied with potential competitors. These reasons states the advantages of strategic alliances. Some of the advantages of strategic alliances are,

##### 1. Strategic Alliance Counter Balance the Competitive Disadvantages of Companies

Strategic alliance not only counterbalance competitive disadvantages of companies but also assist them in using their competitive strengths against the rivals of one another. Most of the companies aiming at protecting their independence go for strategic alliance instead of mergers because strategic alliance fill the competitive gap between the allied companies.

##### 2. Strategic Alliance Allows Risk Sharing and Cost Sharing

In this competitive business environment no company can give assurance that it will succeed in the new market or new product development. In this situation entering a new market or developing new product becomes a risky job. Strategic alliance allow allied companies to share risk and cost involved in developing new product or entering a new market.

**SHORT QUESTIONS AND ANSWERS****Q1. Diversification****Answer :***May/June-12, Q1(f)*

Diversification is a much-used and much-talked about set of strategies. These strategies involve all the dimensions of strategic alternatives.

Diversification may involve internal or external, related or unrelated, horizontal or vertical and active or passive dimensions either singly or collectively.

Essentially, diversification involves a substantial change in the business definition - singly or jointly - in terms of customer functions, customer groups, or alternative technologies of one or more of a firm's business.

**Q2. Offensive Strategy****Answer :***May-13, Q1(g)*

Offensive strategies are used as a key drivers of competitive advantage. On the other hand defensive strategies are used for protecting the competitive advantage and are rarely a base for creating the advantage.

Creating an edge over competitors requires time on the basis of competitive circumstances. It can be much longer if it takes a lot of time for the firm to change its technology, network systems or production capacity. Competitive advantage is built quickly through offensive moves. The longer it takes, it is more likely that the competitors will spot the move, identify the potential in it and start counterresponding.

Therefore, for the times to sustain their competitive advantage they need to emerge with follow-on offensive and defensive moves one after the other in order to protect their market position and retain favour of customers.

**Q3. Mergers and Acquisitions****Answer :***April/May-14, Q1(h)***Merger**

In Mergers two companies integrate voluntarily a new entity or enterprise. Merger has two subsets which are as follows,

**(i) Subsidiary Merger**

It involves merging of two companies wherein the target company becomes a subsidiary or a part of a subsidiary of the parent company.

**(ii) Reverse Subsidiary Merger**

In reverse subsidiary merger, the subsidiary of the parent company Merges with target company.

**Acquisitions**

In acquisitions, one firm tries to control the other firm by purchasing majority of its shares without any willingness of the other firm (i.e., the target firm participates involuntarily.)

**Q4. State the objectives of Mergers and Acquisitions.***(Model Paper-I, Q4 | May/June-16, Q1(i))***OR****State the objectives of M & A.****Answer :***May-17, Q1(i)***Objectives of Mergers**

The objectives of mergers are as follows,

1. To gain market power.
2. To reduce the risk.
3. To improve financially.
4. To gain efficiency.

### 3. Obtainment of Economies of Scale

Companies can achieve economies of scale through strategic alliance. Companies can enjoy economies of scale by working together rather than by working separately. Development activities, production activities and distribution activities are the compatible assets and resources which allied companies have and the cost of these assets and resources can be minimized through strategic alliance.

### 4. Entry into International Market

Strategic alliance helps in entering the foreign/international market. For instance, most of the companies have an opinion that in order to successfully enter the foreign market, they are required to form an alliance with the local company of that market who possesses through knowledge regarding the local business situations and have good relationships.

### 5. Leading Technological Changes

Strategic alliance plays an important role in industries such as Semiconductors, Telecommunications, Electronics and Computer hardware and software industries where technology changes very frequently and innovations in one technology influence others. When companies face huge technological changes in various areas of the firm, they recognize the need to form strategic alliance with other companies in order to lead technological change and achieve high product performance in their specialized areas.

### 6. Bringing Together Complementary Skills, Abilities and Assets

The complementary skills, abilities and assets of the companies can be bought together through strategic alliance. One company might not possess all the skills and assets required for developing a new product. In this situation, the skills and assets of companies can be combined together to develop new product.

### 7. Low-cost Advantage

Many a times, strategic alliance takes the form of joint venture. Joint venture are formed between the companies located in one country and the companies located in another country to obtain the advantage of low-cost.

### 8. Alliance for Mutual Motivation

Companies located in developed countries and companies located in developing countries form strategic alliance for the purpose of mutual motivation. Companies of developing country strives for technology, know-how or capital from the companies of developed country. Companies of developed country look for chance to get benefit out of companies in developing country. Low-cost of labour and huge availability of raw materials in developing country are the source of advantage to companies of developed country.

### Disadvantages of Strategic Alliances

Inspite of the above mentioned advantages of strategic alliances, they are not free from disadvantages. Disadvantages of strategic alliances are,

#### 1. Low-cost Path to Competitors

Strategic alliance is criticized on the ground that it gives low-cost path to competitors to achieve new technology and markets. For instance, few years back critics argued that most of the strategic alliances formed between U.S companies and Japanese companies were for the strategic advantage of Japanese. These alliances kept worthwhile and highly paid jobs in Japan and acquired the project engineering and production process skills of U.S. companies.

According to critics, whatever the success Japanese have achieved in machine tool and semiconductor industries are due to US technology obtained through alliances.

#### 2. Alliance Leave the Company with No Competitive Advantage

Critics argued that strategic alliance formed between Japanese and US companies have left the US. Companies with no competitive advantage in the global market.

#### 3. Accessibility of Information

Accessibility to information is one of the disadvantage of strategic alliance. For successful working of alliance, one party to alliance may required to share its secret information with other party to alliance. Usually, identifying the information requirements well in advance becomes a complicated task.

#### 4. Risks Accompany Alliances

Critics argued that strategic alliances involves risk. Against this argument there are many examples which shows successful alliance formed between companies. Some of these examples are, alliances formed between US and Japanese companies, alliance formed between Microsoft and Toshiba etc.

#### 5. Sharing of Earned Profits

Like risk sharing and cost sharing, profits earned are also shared among alliance partners. The share of each partner in earnings has to be decided rather than reinvesting earnings in the business. Apart from this, alliance partners should decide about the accounting of earning and transfer pricing.

#### 6. Changing Situations

Changing situations might have impact on the feasibility of a strategic alliance. The economic situations which have motivated the companies to enter into alliance might not exist any more or changing technology might make the strategic alliance out dated.

**Objectives of Acquisitions**

Some of the objectives of acquisitions are,

- (i) To avoid competition
- (ii) Expansion of business and can avoid failure of business
- (iii) Acquiring business which has specific skills to improve further
- (iv) To secure patents, licences and other intellectual property rights.

**Q5. Strategic Alliance**

**Answer :**

(Model Paper-III, Q3 | May-13, Q1(h) | May/June-12, Q1(h))

When a company decides to cooperate with two or more companies for performing business operations by making their contributions either in the form of resources, skills or capabilities for attaining a common goal or for mutual benefit is termed as strategic alliance.

International Strategic Alliance is a cooperation between one or more multinational companies to perform business operations by contributing their effects and capabilities for mutual benefit or for attaining objective by building long-term formal relationships between the partners. The global strategic alliance between the large or small companies all over the world is growing rapidly and denotes the importance of global strategic alliance.

Strategic Alliance/Agreements is commonly used in international business but, it is an expensive process.

Examples of International Strategic Alliance, IBM and Apple computer entered into an alliance to develop hardware and software technology for a new generation of desktop computers, Indian and foreign based companies formed several alliances in the telecommunication sector such as, Crompton, Greaves and Illi, Usha Marten and Telekom Malaysia, SPIC group and Telstra and many more.

**Q6. Write a note on vertical integration and horizontal integration.**

**OR**

**Vertical Integration**

May/June-12, Q1(g)

(Refer Only Topic: Vertical Integration)

**OR**

**Horizontal Integration**

(Refer Only Topic: Horizontal Integration)

**Answer :**

April-15, Q1(h)

**Vertical Integration**

When an organization starts making new products that serve its own needs, vertical integration takes place. In other words, any new activity undertaken with the purpose of either supplying inputs (such as, raw materials) or serving as customer for output. (such as, marketing of firm's product) is vertical integration.

**Horizontal Integration**

When a firm acquires (takes up) another firm dealing in the similar kind of product and process in the same industry it is known to be following the horizontal integration strategy.

Example, IDBI bank acquired United West Bank which helped it to quickly add 230 branches in its network.

**Q7. What is related diversification?**

**Answer :**

(Model Paper-II, Q5 | May/June-16, Q1(h))

Concentric or related diversification takes place when an organisation spreads/extends into a related but different business. Concentric diversification helps in relating or associating the new businesses to the prevailing businesses through markets, products or technology. The new product is produced from the prevailing facilities, products and processes.

The factors which leads to concentric diversifications are common distribution channel, marketing skills, common brand name and common customers. There are three dimensions of business definition in terms of which relatedness is observed i.e., customer groups served, customer functions carried out or alternative technologies applied.

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**INTERNAL ASSESSMENT****I. Multiple Choice**

1. \_\_\_\_\_ is a type of strategy in which the firms work together as 'strategic alliance' for achieving common objectives. [ ]  
(a) Cooperative strategy  
(b) Diversification  
(c) Vertical strategy  
(d) Horizontal strategy
2. Blocking the choices available to challengers is one of the form of \_\_\_\_\_. [ ]  
(a) Offensive strategies  
(b) Defensive strategies  
(c) Cooperative strategies  
(d) None of the above
3. One of the reasons for diversification is \_\_\_\_\_. [ ]  
(a) Activity sharing  
(b) Transfer of resources  
(c) Provide flexibility to portfolio  
(d) Reduce cost effectively
4. A \_\_\_\_\_ is issued to the short-listed suppliers, requesting a proposal and a price. [ ]  
(a) Request for pin  
(b) Request for price  
(c) Request for order  
(d) Request for proposal
5. They are \_\_\_\_\_ types of acquisitions. [ ]  
(a) Two  
(b) Three  
(c) Four  
(d) Six
6. \_\_\_\_\_ strategy is not suitable for non durable consumer goods as local adaptation is necessary for food products. [ ]  
(a) Global  
(b) Marketing  
(c) Cooperative  
(d) None of the above

7. Joint venture is one of the form of \_\_\_\_\_. [ ]  
(a) Global strategy  
(b) Diversification strategy  
(c) Strategic alliance  
(d) Cooperative strategy

8. Concentric diversification is otherwise called \_\_\_\_\_. [ ]  
(a) Related diversification  
(b) Unrelated diversification  
(c) Horizontal diversification  
(d) Vertical diversification

9. The trend that has become more common in global markets is \_\_\_\_\_. [ ]  
(a) Globalisation  
(b) Regionalization  
(c) Exporting  
(d) None of the above.

10. The establishment of a new wholly owned subsidiary is referred to as \_\_\_\_\_. [ ]  
(a) Joint venture  
(b) Partnership  
(c) Greenfield venture  
(d) Transnational venture.

**II. Fill in the Blanks**

1. \_\_\_\_\_ involves the sale of the rights to intangible assets, such as trademarks, patents, copyrights or other intellectual property.
2. \_\_\_\_\_ is a strategy that gives the investing firm a controlling interest in a foreign company.
3. \_\_\_\_\_ strategy helps the organisation to acquire both new products and markets.
4. A \_\_\_\_\_ is an informal or formal arrangement between two or more companies with a common business objective.
5. BPO stands for \_\_\_\_\_.
6. A work which was previously done by the internal employees of an organisation and the same work contracted to the outsiders is called as \_\_\_\_\_.
7. In \_\_\_\_\_ two companies integrate voluntarily to create new entity or enterprise.
8. If a company divides its activities in a country into various companies, then it is termed as \_\_\_\_\_.
9. \_\_\_\_\_ is an activity in which one company controls the other company.
10. \_\_\_\_\_ strategies are used as a key drivers of competitive advantage.

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**KEY****I. Multiple Choice**

1. ( a )
2. ( b )
3. ( c )
4. ( d )
5. ( b )
6. ( a )
7. ( c )
8. ( a )
9. ( b )
10. ( c ).

**II. Fill in the Blanks**

1. Licensing
2. Foreign Direct Investment (FDI)
3. Diversification
4. Strategic alliance
5. Business Process Outsourcing
6. Outsourcing
7. Mergers
8. Unbundling
9. Acquisition
10. Offensive.

**III. Very Short Questions and Answers****Q1. What is International Strategy?****Answer :**

A strategy which provides the basis for firms to sell its products or services beyond the domestic market is termed as 'International Strategy'.

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**Q2. Define Corporate Level Strategy.****Answer :**

Corporate level strategy refers to the strategy which is adopted by the companies to diversify their business activities from a single business competing in a single industry or product market into a multiple product markets.

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**Q3. What is Unbundling?****Answer :**

If a company divides its activities in a country into various companies, then it is termed as unbundling.

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**Q4. Write a short note on Offensive and Defensive Strategies.****Answer :**

Offensive strategies are used as a key drivers of competitive advantage. On the other hand defensive strategies are used for protecting the competitive advantage and are rarely a base for creating the advantage.

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**Q5. Define Outsourcing.****Answer :**

When a firm or company undertakes in-house operations like accounting, janitorial, call-center and at the same time, another company is also engaged in the same process/operations then this process is termed as 'outsourcing'.

## **UNIT**

# **5**

## **Strategy Implementation and Corporate Ethics**

### **LEARNING OBJECTIVES**

After studying this unit, one would be able to understand,

- ❖ Concept and Process of Strategic Implementation.
- ❖ Strategic Control and its Approaches.
- ❖ Concept of Corporate Culture and Types of Cultures Prevailing in Companies.
- ❖ Meaning of Social Responsibility and Ethical Decision-Making.
- ❖ Concept of Strategic Leadership and Strategic Entrepreneurship.
- ❖ Meaning of Corporate Governance and Nature, Trends of Corporate Governance.
- ❖ Crafting of Social Responsibility Strategy.

### **INTRODUCTION**

After the formulation of strategy, the next step is strategy implementation. Successful implementation of strategy needs strategic leader with excellent skills and knowledge and a sound and effective organisational structure.

Strategic control can be attained by responding effectively to the environmental change. Corporate governance plays a major role in strategic control.

A strategy can be executed in an efficient manner by developing an effective corporate culture. It is the responsibility of the leaders to introduce an effective corporate culture, suitable organisational structure and controls in the organisation.

Companies also tries to put in their efforts (projects) for the betterment of the society i.e., corporate citizenship concept is being introduced in the companies in order to craft the social responsibility strategy in an accurate manner.

Organisations or firms aims at 'corporate governance' which helps the companies to access control and guide the relationships among shareholder with the company who possess/exercise the rights to make strategic decisions and elect the board-of-directors. Corporate governance is possible and performs best with the use of two mechanisms i.e., internal governance mechanism and external governance mechanism.

**5.1 STRATEGY IMPLEMENTATION**

**Q1. Define strategy implementation. Explain the McKinsey's 7-S framework.**

**Answer :**

*Model Paper-I, Q10(a)*

**Strategy Implementation**

According to Harvey, "strategy implementation is engaged in executing the strategic game plan. It is comprised of setting policies, designing the organization structure and developing a corporate culture which helps to meet the organizational objectives".

After strategy formulation, the strategy needs to be implemented which is useful in the attainment of goals with the use of organizational structure implementing the strategy formulated. Under strategy implementation, three issues require special consideration which includes,

1. Location
2. Ownership and
3. Functional strategies.

**1. Location**

It is essential for an MNC to decide about the location of its subsidiary and major consideration in the selection of any country depends on its market size. Industrialized countries are ranked higher when compared with other countries and MNC's traditionally invested in the rich countries. Other consideration in the selection of a country is the extent/degree of government control. MNC's in past refused to do business in European countries as well as India however, this perception of MNC's has been changed with the liberalization of Indian government and other Eastern European nations. Even the various restrictions on foreign direct investment needs to be considered before selecting a country. Multinational manager considers the following aspects before selecting any country,

- (i) Demographic characteristics. Example, size and rate of populations and growth.
- (ii) Geographic characteristics. Example, climatic conditions and size of the country, physical features.
- (iii) Economic factors. Example, rate of growth of GNP and income ratio.
- (iv) Technological factors. Example, technical skills, R&D expenses.
- (v) Socio cultural factors. Example, lifestyle patterns, tastes and preferences.
- (vi) National priorities. Example, infrastructure and industry priorities.

Despite of having many benefits while locating operations overseas it also have drawbacks/limitations such as, bureaucratic red tape, unstable political climate, generating low profits for MNC etc.

**2. Ownership**

Selection of ownership form of an international business operation is another major issue which needs to be resolved as early as possible because the most common form of ownership includes, joint ventures, alliances, mergers and acquisitions and new facilities. Based on the region of the world, ownership pattern is selected.

Example, alliances are more suitable in countries like New Zealand and Australia whereas, joint ventures are widely applicable in China.

**3. Functional Strategies**

Functional strategies are mostly used to synchronize the operations so as to ensure the effectiveness of the strategy being implemented. Some of the specific functions of MNC's differs from one another i.e., marketing manufacturing, finance, technology and human resources.

**Mc Kinsey's 7-S Framework**

One of the famous consultancy firm, namely McKinsey in the United States found an appropriate solution during 1970's. They found that strategy implementation is classified under two levers, where structure constitutes one of the lever controlled by the management and the other lever includes staff, systems, style, skills, superordinate goals of 7-S framework.

**(i) Strategy**

A set of decisions and actions, which aims to gain consistent competitive advantage.

**(ii) Structure**

The organization chart presenting the related information showing who reports to whom and how tasks needs to be divided and integrated. Organization structure is required to determine the total number of levels present in an organizational hierarchy.

**(iii) Systems**

Sequential activities engaged in the daily operations of the business which are the resultants of core processes and its support systems. Systems are essential for designing organizational processes, procedures, reports and routines.

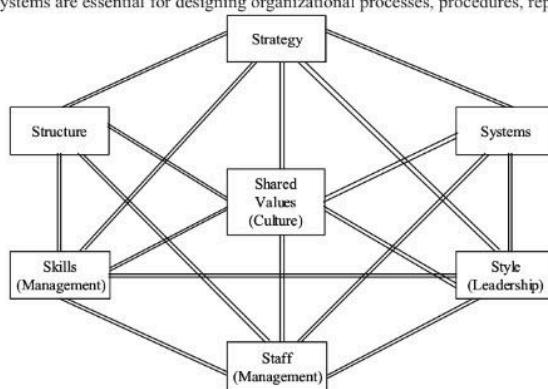


Figure: Mc Kinsey's 7-S Framework

**(iv) Style (Leadership)**

It means the behavioural style of the managers as to how they collectively spend their time and attention and how they use their symbolic behaviour. Finally, how management behaves is more important when compared to the intentions and thoughts of the individuals operating at the managerial level.

**(v) Staff (Management)**

It is related to employees training and development with a view to shape fundamental values.

**(vi) Shared Values (Culture)**

Shared values is subjected to commonly used beliefs, mindsets and assumptions which can shape how an organization behaves especially in its corporate culture.

**(vii) Skills (Management)**

It is concerned with organization's dominant capabilities and competencies.

The 7-S framework shows that any alteration in any S-factor may lead to changes in all the other S-factors. But now, the concept of 7-S has changed to the concept of 8-S by making an addition of S-streaming. Streaming consists of those areas that either directly or indirectly affect all the 7-S. For developing and aligning, it is very essential for the organizations to consider internal components as well as the events happening outside the organization.

There is no starting point on stated order of preference in the shape of the 7-S's framework and none of the seven factors individually may force to change the organization. Main task of strategists is to attain a good/proper fit among the 'seven S' by making periodical reviews thereby taking appropriate correction measures.

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**Q2. Describe the characteristics of strategy implementation.**
**Answer :**

Strategy implementation is subjected to managerial exercise to implement suitable strategy serving the purpose of a department for which it has to be designed. The strategic plan designed by the organization enable them to understand the way in which strategies can be brought to action. Because strategies are the statement of intent and implementation tasks is especially meant for realising this intent. Thus, strategies need to be activated through proper implementation.

Major characteristic features of strategy implementation highlighting its nature can be studied as follows,

#### **1. Action Orientation**

The indispensable nature of strategy implementation is, it involves action. This strategy implementation in turn is composed of keeping the formulated strategies into action with the use of management processes. Managers therefore, applies knowledge and techniques of management processes with an intention to keep strategies into action and this management processes is investigated thoroughly so as to document these findings into the "management literature". Thus, strategy implementation represents the intellectual content of strategy formulation process.

#### **2. Comprehensive in Scope**

Strategy implementation is composed of several aspects and practically it already covered the essential aspects relating to the discipline of management studies. Strategy implementation traverses an extensive range of activities and functions. For instance, anything which entails managerial action becomes the part of strategy implementation.

Not only the core activities of a specific function comes under the purview of the strategy implementation but also the non-core activities.

Examples, preparation of marketing and sales budget, launching programme designed for new product development by a marketing manager constitutes the core activities of a strategy implementation whereas, the other activities such as, establishment of cost control procedures, preparation of operations schedules and training programme constitute the non-core activities of an organization.

#### **3. Demanding Varied Skills**

Strategy implementation process deals with an extensive range of activities which has to be undertaken by a strategists, therefore he needs to perform his or her task with a wider range of skills, knowledge, attitudes and abilities. Because, the implementation process itself indicates testing the strategist skills and abilities. Example, to allocate resources, design and create structures and systems, formulate functional policies all these contributes to leadership styles which must be possessed by the strategists essentially to plan for operational efficiency apart from handling the issues associated with the implementation process.

#### **4. Wide Ranging Involvement**

In contrast to strategy formulation, which is an exclusive responsibility of a top management, the strategy implementation needs the involvement of middle-level managers. This implies that middle-level managers must clearly understand the strategic plan when communicated to them by their top-level managers as they are mainly responsible for the implementation of a strategy.

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#### **5. Integrated Process**

Different tasks dealt under the strategy implementation cannot be stated alone but they are interrelated with each other. Therefore, strategy implementation must act in a holistic/friendly manner. Each and every task or activity performed under the process of strategy implementation is linked with one another which creates inter-connections. The essence of all these activities depends on the effectiveness of a strategic plan. Thus, the flow of strategy implementation is moving forward in different fields/streams.

#### **Q3. What are the prerequisites for implementing a new strategy?**

##### **Answer :**

The prerequisites of implementing a new strategy are as follows,

##### **(i) Clear, Decisive Objectives**

All efforts should be directed towards clearly understood, decisive and attainable overall goals. All goals need not be written down or numerically precise but they must be understood and be decisive.

##### **(ii) Maintaining the Initiative**

The strategy preserves freedom of action and enhances commitment. It sets the pace and determines the course of events rather than reacting to them.

##### **(iii) Concentration**

The strategy concentrates superior power at the place and time likely to be decisive. The strategy must define precisely what will make the enterprise superior in power, best in critical dimensions in relation to its competitors. A distinctive competency yields greater success with fewer resources.

##### **(iv) Flexibility**

The strategy must purposely to be built in resources, buffers and dimensions for flexibility and maneuver. Reserved capabilities, planned maneuverability and repositioning allow one to use minimum resource while keeping competitors at a relative disadvantage.

##### **(v) Coordinated and Committed Leadership**

The strategy should provide responsible, committed leadership for each of its major goals. Care should be taken in selecting the leaders in such a way that their own interest and values match with the requirements of their roles. Commitment but not acceptance is the basic requirement.

##### **(vi) Surprise**

The strategy should make use of speed, secrecy and intelligence to attack exposed or unprepared competitors at an unexpected time. Thus surprise and correct time are important.

**(vii) Security**

The organization should secure or develop resources required, securely maintain all vital operating points for the enterprise, and effective intelligence system to prevent the effects of surprises by the competitors.

**Q4. Discuss about the various steps involved in strategy implementation.****Answer :**

The following steps are involved in the strategy implementation,

**1. Operationalizing the Strategy (Throughout the Organization)**

Important tools to accomplish this,

- (a) Annual objectives guide implementation by translating long-term objectives into current targets (coordination).
- (b) Functional strategies are derived from business strategy and provide specific, immediate direction to key functional areas within the business in terms of what must be done to implement the strategy.
- (c) Policies provide another means of directing and controlling decisions and actions at the operating levels of the firm in a manner consistent with business and functional strategies. Effective policies channel actions, behavior, decisions and practices to promote strategic accomplishment.

**2. Institutionalizing the Strategy**

- (i) Structural alternatives.

Simple, functional, divisional, matrix.

- (ii) Dimensions of leadership (in implementation).

Key considerations in managerial assignment to implement strategy.

**Advantages**

- (i) Already know key people, practices and conditions.
- (ii) Personal qualities better known and understood by associates.
- (iii) Have established relationships with peers, subordinates, suppliers and buyers etc.
- (iv) Symbolizes organizational commitment to individual careers.
- (v) Outsider may already believe in and have "lived" the new strategy.
- (vi) Outsider is unencumbered by internal commitments to people.
- (vii) Outsider comes to the new assignment with heightened commitment and enthusiasm.
- (viii) Bringing an outsider can send powerful signals throughout the organisation that change is expected.

**Disadvantages**

- (i) Less adaptable to major strategic changes because of knowledge, attitudes and values.
- (ii) Past commitments may hamper hard decisions required in executing a new strategy.
- (iii) Less ability to become inspired and credibly convey the need for change.
- (iv) Often costly.
- (v) Suitable candidates may not be available always, leading to compromise choices.
- (vi) Uncertainty in selecting, the right person.
- (vii) The 'morale' costs when an outsider takes a job several insiders wanted.

**Influence of organization culture on organizational life.**  
**3. Strategic Control Guiding and Evaluating the Strategy**

Establishing strategic controls. Strategic controls are intended to steer the company towards its long-term strategic direction.

Four basic types of strategic control,

**(a) Premise Control**

Designed to check systematically and continuously whether or not the premises set during the planning and implementation process are still valid.

**(b) Implementation Control**

Designed to assess whether the overall strategy should be changed in light of unfolding events and results associated with incremental steps and actions that implement the overall strategy.

**(c) Strategic Surveillance**

Designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of the firm's strategy.

**(d) Special Alert Control**

It is the need to thoroughly and often rapidly, reconsider the firms basic strategy based on a sudden, unexpected event.

**Q5. Discuss the problems involved in strategic implementation.****Answer :**

May-17, Q6(a)

Implementation of a strategy is a much more difficult task than a strategy formulation. If a strategy is just good but implemented properly than it is sure to be success. Whereas, improper implementation of even a best strategy may be unsuccessful. Improper implementation is believed to be one of the major factor responsible for the failure of strategies.

## **5.6**

In the present situation, the strategists are believed to have skills to formulate the best suitable strategy but its effective implementation is still to be learnt. The research has also indicated the major reasons for the unsuccessful implementation of strategies. The following are the various issues/problems involved in strategy implementation,

### **1. Project Implementation**

The project management institute of US has defined a project as "a one-shot, time limited, goal oriented, major undertaking, requiring the commitment of varied skills and resources". Project is a specific programme which requires the determination of time schedule and costs in advance. Project bring about an environment necessary for the implementation of strategies.

### **2. Procedural Implementation**

On the basis of rules and regulations of the government, it is necessary to execute the strategy in strategy implementation. The strategy implementation process requires the fulfillment of certain procedures. It is necessary for every strategist to study the licensing procedures, foreign collaboration procedure, Foreign Exchange and Regulation Act (FERA) requirements, environmental requirements, import and export requirements, the requirements of labour laws and other legislative laws.

### **3. Organizational Growth**

Organizational structure serves towards the achievement of organizational goals and its missions. Therefore, the structure is crucial for strategy implementation. The manner in which the duties and responsibilities are assigned to the individual and then grouping them into respective units, departments and divisions is referred to as organizational structure. The formal structure focuses on relationship among the individuals and their work assigned by the management. It also has the definite levels of organizational hierarchy whereas, the informal structure represents the social relationships among different individuals in the company.

### **4. Organizational Structures and Strategies**

The strategies serve as a base for company structures. The company develops various structures. Simple strategies requires simple structure whereas, flexible structures are suitable for growth strategies. Complex strategies can be successfully implemented through the matrix structures.

### **5. Entrepreneurial Structure**

The business usually start on a small scale and consist of only the owner and few employees. Organizational chart and delegation of authority is not required in such organizations. Every employee is well aware of his/her work and also about the functions and duties which have to be performed by him.

## **STRATEGIC MANAGEMENT**

After its successful operation, the demand for its products and services leads to increase in size of the organization. After expansion, the owner needs to divide the work and delegate authority due to increased hierarchical levels.

The structure expands both vertically and horizontally as a result of business growth. The entrepreneurial structure is very much simple and results in quick decisions-making, sensitivity towards environmental demand and operational flexibility. At the same time it relies more on owner-manager who might not be an expert. The structure is not operational for meeting increased demand beyond a specific point.

### **Q6. Write in detail about the model of strategy implementation.**

#### **Answer :**

The model of strategy implementation involves three major activities. They are,

1. Project implementation
2. Procedural implementation
3. Resource allocation.

### **1. Project Implementation**

The completion of correct projects on time ensures the smooth implementation of a strategy. Project constitutes an important component of a strategy implementation model.

Strategies are followed by plans, programmes and projects where a project constitutes a unit of a programme. A programme represents the collection of projects consisting of interdependent and interrelated activities. Implementation of a plan requires many programmes, whereas, implementation of a strategy involves a number of plans. At any point of time, organization gets itself engaged into a variety of projects such as, factory expansion, installation of machines, development of a new product and so on.

Project management has witnessed a vast growth over the years. Today, project management has its own standards and a body of knowledge. Project management has a matured discipline for various developmental projects. The project management's principles and techniques are very much related to the strategy implementation tasks. These principles and techniques are applicable to both large as well as small projects.

The project management institute of US defines a project as 'temporary endeavour undertaken to achieve a particular aim and to which project management can be applied, regardless of the project's size, budget or timeline'. The project management is defined as the application of knowledge, skills, tools and techniques to a broad range of activities in order to meet the requirements of a particular project'.

**Features**

The following are the features of project management,

- The projects serve as vehicles for implementation of strategies.
- It is an important business process.
- It helps the organizations in focusing on correct projects.
- It enables strategy implementation.
- It creates a project oriented organization by linking with strategy implementation.

**2. Procedural Implementation**

Regulation is found to be crucial for the operation of every business and industry. These regulations need to be constantly reviewed so that updatons can be incorporated into the strategy with the changing environment.

Most of the managers believe regulations to be a necessary evil. Even though, regulations may increase inefficiency yet they are crucial, as every business is restricted to operate within the boundaries drawn by the society.

**Regulatory Mechanism**

- The organization should be aware of the procedural framework in order to implement the strategies.
- The regulatory mechanism in India constitutes of a wide legal framework.
- The government determines the procedure for the implementation of the project.
- Industrial development projects are handled by different ministries and departments.

**Regulatory Elements**

The following are the major regulatory elements,

**(a) Formation of a Company**

The Companies Provision Act, 1956 governs the formation of the company.

**(b) Licensing Procedures**

A license refers to a permission granted by the government to industrial undertaking in written to carry out their activities.

**(c) Securities and Exchange Board of India**

The SEBI was established in 1992 as a result of the Securities and Exchange Board of India Act 1992.

**(d) Monopolies and Restrictive Trade Practices (MRTP) Requirements**

The MRTP Act of 1969 was introduced so as to prevent the monopolies and restrictive trade practices.

**(e) Foreign Collaboration Procedures**

Foreign collaborations and investments are crucial for internationalization strategies.

**(f) Import and Export Requirements**

Import and exports are crucial for internationalization strategy implementation.

**(g) Patenting and Trade Marks Requirements**

Today patenting and trade marks are becoming one of the major requirement.

**(h) Labour Legislation Requirement**

Labour legislation is crucial and includes over 150 laws relating to various aspects.

**(i) Environmental Protection and Pollution Control Requirements**

Today environmental protection and pollution control have gained both national and international importance.

**(j) Consumer Protection Requirements**

Consumer protection is gaining importance as a part of strategy implementation.

**(k) Procedures for Availing Benefits from Incentives and Facilities**

Government plays a promotional role in providing incentives.

**(l) Procedural Implementation in Action**

Every organization is to follow the rules that have been stated by the government.

**3. Resource Allocation**

A strategic plan displays the ideas of strategists. But resource allocation is crucial for the accomplishment of organizational objectives. Project implementation and procedural implementation only provide the required infrastructure through which the process of strategic planning can be carried out. The procurement and allocation of resources plays a vital role to implement/put forth the designed plans into actions.

The procurement, commitment and distribution of the financial, human, informational and physical resources for achieving organizational goals is known as "resource allocation". Properly allocated resources helps the organization to develop strengths and weaknesses, synergy affects, competitiveness and prepares the organization to withstand difficult situations. Strategic management is also referred to as the 'resource allocation process'.

Resource allocation is a major requirement of every project. It is not a one time process but an ongoing process. It is essential for smooth and regular functioning of an organization. Financial and physical resources are allocated through the adoption of budgeting technique.

## 5.2 STRATEGIES EVALUATION AND CONTROL

**Q7.** What is strategic evaluation and control? Write about its nature and importance.

**Answer :**

### Strategy Evaluation and Control (SEC)

Strategy Evaluation and Control (SEC) is the final stage of the strategic management process. The primary objective of it is to ascertain or analyze the effectiveness of specific strategy in attaining organizational objectives and taking suitable corrective actions wherever and whenever required.

#### Nature of SEC

SEC enables the strategists to determine the effectiveness of the formulated strategy in attaining the organizational objectives.

F.R.David stated that strategy evaluation involves three primary activities, which are as follows,

- (i) Assessing the fundamental basis of an organizational strategy.
- (ii) Differentiating actual results and the expected results.
- (iii) Taking corrective actions to make sure that performance is as per the plans.

Strategy evaluation functions at two levels,

#### 1. Strategy Level

At this level, the managers evaluate the compatibility of the strategy with the environment.

#### 2. Operational Level

At this level, the managers determine the way in which the strategy is effectively accomplished by the organization.

#### Importance of SEC

A strategy may not yield the intended results for many different reasons like,

- (i) The external factors may not be consistent with the strategy.
- (ii) The unexpected activities undertaken by the competitors may create gaps in the strategy.
- (iii) The strategy execution should not be done on chance basis.

The managers should continuously observe the things, initiate checks and balances and perform mid-course corrections in the initial stages for executing the strategies.

SEC assists the organization in many different ways which are as follows:

#### (i) Feedback

SEC provides an effective feedback about how good the work is moving forward and also focuses on the significance and validity of the strategic selections made in the past. It helps in making a close observation of performance and provides a feedback.

#### (ii) Reward

SEC assists the strategists in recognizing the employees who are performing as per the strategy and rewarding them. It also helps in identifying the people liable for strategy failure.

The managers can take rectification measures, if the strategy formulated is not implemented due to various reasons.

#### (iii) Future Planning

SEC provides significant amount of information and experience to the decision-makers which is very helpful while devising new strategic plans.

#### (iv) Check on the Validity of Strategic Choice

Strategy evaluation assists in evaluating the validity of strategic selections made by the firm. The continuous evaluation process helps in modifying and enhancing the strategy. It also helps the manager to predict responses to the expected problems.

#### (v) Compatibility between Decisions and Intended Strategy

While executing the strategy, the managers should consider scores of decisions. The strategic evaluation assists in determining whether the decisions are compatible with the planned strategy requirements or not.

#### (vi) Successful Conclusion of Strategic Management Process

The control process, feedback, rewards and review of strategic evaluation assists in the successful conclusion of strategic management process.

All the above constitutes the prominent reasons for the usage of strategic evaluation and control by the managers.

The hidden reasons for using SEC are as follows:

- (a) Utilizing control systems for dealing with the resistance to change.
- (b) Discussing new strategic agenda.
- (c) Assuring constant focus on new strategic initiatives.
- (d) Formalizing convictions
- (e) Establishing boundaries on satisfactory strategic behaviour and motivating conversations and
- (f) Discussions regarding strategic uncertainties.

**Q8. What are the different barriers of strategic evaluation and control?**

**Answer :**

The major barriers of strategic evaluation and control are as follows,

**1. The Limits of Control**

The control to both greater extent or lower extent can be problematic for the firm. The strategies face difficulties in ascertaining the limits of control. If the control is to a greater extent, then the managers capability will be weakened which significantly affects the creativity and creates hindrance towards an efficient performance.

If there is less control, then it may lead to lack of cooperation, random usage of managerial decisions and the employees may work carelessly without any fear of punishment. All these factors may make the process of strategic evaluation and control ineffective.

Hence, the strategists should focus significantly on the extent of control to be maintained in the organization.

**2. Difficulties in Measurement**

Determining measurement techniques which are valid and reliable is a difficult task which in turn affects the evaluation process.

The evaluation process is also affected by the absence of quantifiable objectives, or performance standards and the inability of the information system to furnish timely and valid information.

If the validity and reliability of measurement systems are not accurate, then the results may not be measured uniformly and the characteristics which are not supposed to be measured may be measured.

The process of evaluation can be carried out effectively by using reliable and validated measurement systems, standardized measurement procedures and improving the quality of information system.

**3. Motivational Problems**

The strategists are responsible for devising and executing a strategy.

If there is any mistake in this strategy and if it does not lead to the intended objectives, the strategists are not ready to accept their mistakes and try to blame others. This may in turn obstruct them from transferring unprofitable divisions, correcting wrong decisions and investigate the other practical options.

**4. Resistance to Evaluation**

The process of evaluation deals with controlling the individual's behaviour and as the managers resist the organizational mechanisms, the evaluation process is also resisted by them. This resistance can be decreased when the participants of the evaluation process communicate openly with each other.

**5. Short-termism**

Generally the managers depend upon the results of short-term activities and measure them promptly and do not consider the long-term effect of performance on strategy and long lasting impact of strategy on performance.

The reason for this is that they feel prompt analysis is simple and easy when compared to long-term consequences which are very tiresome.

**6. Depending on Efficiency Versus Effectiveness**

Generally the term 'efficiency' means "doing the things right" whereas "effectiveness" means "doing the right things". The managers get confused as to what makes an "effective performance".

Sometimes the managers do not reward the right performance if the performance is measured on the basis of wrong parameters.

Sometimes the managers reward the performance which does not contribute towards attaining the objectives when it is evaluated on the basis of efficiency. The solution can be achieved by concentrating highly on effectiveness in comparison to just efficiency.

All these barriers can be prevented if the employees at all the organizational levels consider evaluation positively.

**Q9. What is strategic control? Explain its types.**

**Answer :**

**Strategic Control**

A strategy is selected and implemented over time so as to effectively position and guide a firm within an often rapidly changing environment. Strategies are forward looking, designed to be accomplished several years into the future, and based on management assumptions about numerous events that have not yet occurred.

How should managers undertake controlling a strategy? Traditional approaches to control seek to compare actual results against a standard. The work is done, the manager evaluates the work, and uses the evaluation as input to control future efforts. While this approach has its place, it is inappropriate as a means to control a strategy.

Waiting until a strategy has been fully executed often involves five or more years, during which many changes occur that have major ramifications for the ultimate success of the strategy.

Consequently, customary control concepts and approaches must be adjusted or replaced in favor of strategic controls that recognize the unique control needs of long-term strategies.

Strategic control is concerned with tracking the strategy as it is being implemented, detecting problems or changes in underlying premises, and making necessary adjustments.

## 5.10

## STRATEGIC MANAGEMENT

In contrast to post action control, strategic control is concerned with controlling and guiding efforts on behalf of the strategy as action is taking place and while the needed result is still several years into the future.

### Types of Strategic Control

The various types of strategic controls are,

1. Premise control
2. Implementation control
3. Strategic surveillance
4. Special alert control.

#### 1. Premise Control

Every strategy is based on assumed or predicted conditions. These assumptions or predictions are planning premises. A firm's strategy is designed around these predicted conditions.

Premise control is designed to check systematically and continuously whether or not the premises set during the planning and implementation process are still valid.

If a vital premise is no longer valid, then the strategy may have to be changed. The sooner an invalid premise can be recognized and revised, the better the chances that an acceptable shift in the strategy can be devised.

#### 2. Implementation Control

The action phase of strategic management is located in the series of steps, programs investments, and moves undertaken over a period of time to implement the strategy. Special programmes are undertaken.

Functional areas initiate several strategy related activities. Key people are added or reassigned. Resources are mobilized. In other words, managers convert broad strategic plans into concrete actions and results for specific units and individuals as they go about implementing strategy. And these actions take place incrementally over an extended period of time, designed ultimately to enact the planned strategy and achieve long-term objectives.

Strategic control can be undertaken within this context. We refer to this type of strategic control as implementation control. Implementation control is designed to assess whether the overall strategy should be changed in light of unfolding events and results associated with incremental steps and actions that implement the overall strategy.

The example of Prudential Insurance company updating cost and revenue projections based on early experiences with regional home offices is an illustration of an implementation control. The two basic types of implementation control are,

- (i) Monitoring strategic thrusts (new or key strategic programs)
- (ii) Milestone reviews.

#### 3. Strategic Surveillance

By their nature, premise control and implementation control are focused control. The third type of strategic control, strategic surveillance, is designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of the firm's strategy.

The basic idea behind strategic surveillance is that some form of general monitoring of multiple information sources should be encouraged, with the specific intent being the opportunity to uncover important yet unanticipated information.

Strategic surveillance must be kept unfocused as much as possible and should be designed as a loose "environmental scanning" activity. Trade magazines, The Wall Street Journal, trade conferences, conversations, and intended and unintended observations are all sources of strategic surveillance.

While strategic surveillance is loose, its important purpose is to provide an ongoing, broad - based vigilance in all daily operations os as to uncover information that may prove relevant to the firm's strategy.

#### 4. Special Alert Control

Another type of strategic control, really a subset of the other three, is special alert control. A special alert control is the need to thoroughly, and often rapidly, reconsider the firm's basic strategy based on a sudden, unexpected event.

A political coup in the Middle East, an outside firm suddenly acquiring a leading competitor, an unexpected product difficulty like Tylenol's experience with poisoned capsules all of these represent sudden changes that can drastically alter the company's strategy.

Such an occurrence should trigger an immediate and intense reassessment of the company's strategy and its current strategic situation. Many firms have developed crisis teams to handle initial response and coordination when fed with unforeseen occurrences that may have an immediate effect on the firm's strategy. Increasingly, companies are developing contingency plans along with crisis teams to respond to such circumstances.

Operations control are concerned with providing action control. Strategic controls are concerned with "steering" the company's future direction. Both are needed to manage the strategic process effectively.

#### Q10. What are the different techniques of strategic evaluation and control?

**Answer :**

*Model Paper-II, Q10(a)*

There are many techniques of strategic evaluation and control and the strategists have to select from them. The evaluation techniques for strategic control and operational control are different and are as follows,

**UNIT-5 STRATEGY IMPLEMENTATION AND CORPORATE ETHICS****5.11****Evaluation Techniques for Strategic Control**

Strategic control involves regular monitoring and controlling the strategic management process, which thereby helps the organization to attain its objectives.

Depending on the organizational environment, the techniques for strategic control are categorized into two types,

- (i) The organizations which carryout their activities and operations in a relatively stable environment can use strategic momentum control and
- (ii) The organizations which are operating in a relatively volatile environment can use strategic leap control.

**I. Strategic Momentum Control**

The main aim of these evaluation techniques is to ensure that the suppositions based on which the strategies are designed are valid and the activities which need to be performed by the organization for retaining its prevailing strategic momentum. Three techniques are used for attaining these objectives. These techniques are as follows:

**1. Responsibility Control Centres**

The responsibility control centres act as the essence of management control systems and are of four different types,

- (a) Revenue
- (b) Expense
- (c) Profit
- (d) Investment centres.

All these centres are developed based on the measurement of inputs and outputs.

**2. The Underlying Success Factors**

These factors help the organization to emphasize on the critical success factors which assist in assessing the factors that make the strategies successful. The management of the strategies based on the critical success factors help the strategists in assessing the strategies and determining whether they are helping the organization to attain its objectives or not.

**3. Generic Strategies**

This technique assumes that the strategies which are used by the similar firms can be compared. This comparison helps the firm to determine how and why the other firms are implementing certain specific strategies and to evaluate whether its own firm is following the strategies in the similar manner or not.

**II. Strategic Leap Control**

These techniques are followed by the organizations whose environment is relatively unstable. The use of these techniques helps the firms to elucidate the new strategic requirements and to adjust with the growing environmental realities.

Four types of techniques are used for practising strategic leap control. These techniques are as follows:

**(a) Strategic Issue Management**

The main aim of this technique is to determine one or more strategic issues and their influence on the organization.

A "strategic issue is a development which is about to happen either within or outside the organization and has the chances of significantly influencing the organization's ability to attain its objectives".

The management of strategies based on the strategic issues helps the strategists to deal with the sudden environmental changes and to formulate contingency plans for shifting the strategies whenever needed.

**(b) Strategic Field Analysis**

This technique explores the nature and level of synergies prevailing or lacking among the elements of an organization.

If the firm has synergies, then the strategists can evaluate the firm's capability to gain the advantages or the strategists can assess the firm's capability to create synergies where they do not exist.

**(c) System's Modelling**

This technique relies upon the computer based models which initiates the important characteristics of an organization and its environment.

This technique helps the organization to execute pre-action control by analyzing the effect of environment on the organization.

**(d) Scenarios**

This technique is a perception regarding the expected or probable environment which the firm may experience in future. Scenarios help the firms to develop their strategies as per the developments which are about to happen in environment.

**Evaluation Techniques for Operational Control**

For answer refer Unit-V, Page No. 5.12, Q.No. 11, Topic: Evaluation Techniques Used for Operational Control.

**Q11. What do you mean by operational control? Explain the evaluation techniques used for operational control.**

**Answer :**

**Operational Control**

Operational control is widely used in organizations because it is related with the evaluation of performance of the organization. Operational control strives to allocate organizational resources and use them for assessing the performance of organizational units like strategic business units, divisions and so on. This assessment is done to determine the contribution of organizational units towards the attainment of the organizational goals.

**Evaluation Techniques used for Operational Control**

The techniques used for evaluating operational control depends upon the organizational appraisal instead of environmental monitoring. Apart from the techniques used for organizational appraisal, some additional techniques are also used in operational control.

The techniques used for evaluating operational control is divided into three categories. They are as follows,

**1. Comparative Analysis**

In comparative analysis technique of evaluation, the organizational performance is compared against its previous performance or with the performance of the competitors. Comparative analysis includes industry norm, historical analysis and benchmarking.

**(a) Industry Norm**

Industry norm is a comparative method wherein the performance of the firm is evaluated based on the industry norms. This type of evaluation assists the organization in matching its performance with the competitors' performance and helps in striving to exceed the competitor's performance level.

**(b) Historical Analysis**

In historical analysis method, the performance of the organization in the present year is compared with its past performances. One advantage of this method is that the organization will become aware of its performances in the specific time period through historical analysis. The organization can also become aware of the changes in its performance during the specified time horizon.

**(c) Benchmarking**

Benchmarking is a comparative method wherein the organization identifies the best practices in a particular area and set these best practices as standards for measuring its performances. Best practices acts as benchmarks. After setting the best practices as benchmarks, the organization strives to meet such benchmarks.

**2. Internal Analysis**

Internal analysis is concerned with finding out the strengths and weaknesses of the organization/firm/company in a definite form. Internal analysis includes,

**(a) Value Chain Analysis**

Value chain analysis emphasizes on a group of inter-connected activities which are carried out in a systematic manner for manufacturing and marketing products or services. The value chain analysis is useful for operational control as it divides the whole organizational task into recognizable activities and this division assists in the successful evaluation of operational control.

**(b) Qualitative Analysis**

Qualitative analysis is an extension of quantitative analysis technique. Qualitative analysis is applied for evaluating those aspects which cannot be measured in terms of numbers and figures. The methods which can be used for qualitative analysis depends upon judgement, intuition and specified opinion. The methods like survey methods and experimentation methods are used for assessing the performance for operational control.

**(c) VRIO Framework**

VRIO stands for Valuable, Rare, Inimitable and organized. VRIO framework is based on an idea that an organization can achieve sustainable strategic advantage if it uses the capabilities which are valuable, rare, inimitable and organized for usage. VRIO framework can be used for evaluation as it helps in determining whether the valuable, rare, inimitable and organized capabilities are present or not.

**(d) Quantitative Analysis**

Quantitative analysis makes use of financial as well as non-financial quantitative aspects like tangible units or time for evaluating the performance. The main advantage behind using financial and non-financial aspects is that the use of these aspects makes the task performance evaluation easy and helps in checking the evaluation.

**3. Comprehensive Analysis**

Comprehensive analysis makes use of complete approach instead of emphasizing just on one area of activity or department or function. The comprehensive analysis consists of,

**(a) Key Factor Rating**

Key factor rating method takes into consideration key factors in many areas. These key factors are set as standards for evaluating the performance. As the performance areas of the organization is seen from the broader perspective in key factor rating method, it is considered as a comprehensive method.

**(b) Balanced Scorecard**

Balanced scorecard method focuses on finding out four key performance measures relating to internal business perspective, financial perspective, customer perspective and innovation and learning perspective. Balanced scorecard method is a balanced approach to performance evaluation as it considers different parameters for evaluating the performance. Balanced scorecard method is used for evaluating the performances concerned with internal business processes, customers, human resources and finance.

**(c) Business Intelligence Systems**

The organization is facilitated with various internal and external data sources which assists in taking effective decisions. Business intelligence system is used to grab knowledge from all these internal and external sources. Even though, business intelligence systems are not designed for operational control, they provide the information needed for operational control. Business intelligence systems are mainly used in corporate performance management.

Apart from the evaluation techniques discussed above, some other techniques are also available for evaluating operational control. All these techniques can be categorized into two types. They are, auditing techniques and specific purpose techniques.

**5.3 CORPORATE GOVERNANCE****Q12. Define corporate governance. Write about its nature and objectives.**

**Answer :**

**Corporate Governance**

Standard and Poor defined corporate governance as “the way in which a company organizes and manages itself to ensure that all the financial stakeholders receive their fair share of a company’s earnings and assets”. Corporate governance emerges from the culture and mindset of management and cannot be controlled only by legislation. It mainly focuses on managing the affairs in such a way that there is fairness to all shareholders. Corporate governance plays an important role in enhancing economic efficiency of a firm. A good corporate governance makes sure that the organizations or corporations considers the interests of many constituencies and the communities in which they carry out their functions.

**Nature of Corporate Governance**

Following points highlights the nature of corporate governance,

1. It defines the responsibilities and duties imposed on each director.
2. It organizes, clarifies and make constant, decision-making process.
3. Its purpose is to implement a responsible value oriented management and to have effective control over the organization.
4. It deals with the style, structure, processes and roles of directors, members, auditors and others personnel associated with the organization.
5. It operates as a part of large economy and relies its operations on legal, regulatory and institutional environment.

**Objectives of Corporate Governance**

Corporate governance plays an important role in the survival of any company. It can expand some of its operations beyond the corporate law. Following are some of the objectives of corporate governance. They are as follows,

**1. Builds Investor's Confidence**

It successfully builds the confidence among investors of the company through its effective functioning and higher profits.

**2. Ensures Transparency in Operations**

It ensures that all operations involved in managing the firm must be performed in fair and transparent manner. So that value of their stakeholders will increase and have good faith in their company.

**3. Provides Balanced Board**

In order to balance the board it is appointing adequate number of executive and non-executive directors in the organization to look after the interest of their stakeholder.

**4. Policies and Procedures of Board are Reviewed**

It reviews the policies and procedures of the board so that interest of both company and stakeholder can be retained.

**5. Board's Decisions are Informed to Shareholders**

It ensures the adequate supply of information relating to the decisions of board. In other words, decisions of board must be communicated regularly to its share holders.

**6. Long term Objectives of the Board**

It frames the policies of the board in such a manner that long-term value of the firm and shareholders wealth keeps on increasing.

**Q13. Discuss the need for and applicability of corporate governance in Indian environment.**

**Answer :** (Model Paper-I, Q10(b) | May/June-16, Q6(a)

**Need for Corporate Governance**

Following are the needs of corporate governance in Indian environment,

**1. Have Transparency in the Transaction**

A corporate sector is a public company and it is accountable to stakeholders for all operations. Therefore, they need to have transparency in all their transactions and it is possible only through adoption of corporate governance.

**5.14****STRATEGIC MANAGEMENT****2. Compete in Globalization**

In globalization era it is must for corporate sector to have corporate governance in order to meet the following objectives. They are,

- (i) To meet financial requirements
- (ii) To attract and retain human resources from different parts of the world and
- (iii) To have collaborations with other country.

**3. Understand and Practise Correct Ethics**

In business, ethics refers to values and principles of organizations. It allows a person to make a choice between correct and wrong and select the best course of action to practice it.

**4. Make Decisions**

Based on set of principles, management takes the decisions by considering the expectations of their stakeholders.

**5. Recognize the Growth of Corporation**

The growth of every corporation depends on cooperation of all stakeholders which is possible by adopting best corporate governance practices. Management must act as a trustee of shareholders and avoid asymmetry of benefits.

**6. Improve Economic Efficiency**

It acts as an important factor which helps in improving the economic efficiency of a firm.

**7. Develop a Economy**

It benefits not only to the organization but operate for the benefit of society and economy as a whole.

**8. Regulate the Scams**

Since liberalization, a series of scams were taking place in India some of the scams were Ketan Parikh, Harshad Mehta, UTI, Bhasali scam and so on has effected the economy badly. So, it was essential for Indian corporate to adopt global governance standards and regulate such type of scams in the coming years.

**9. Manage and Control Effectively**

Corporate governance enables the organization to manage and control its operations effectively. Further, it regulates evil practices such as corruption, wrong disclosure of financial information and mismanagement and so on. These activities are accepted as a way of life which are resulting in insulated non-competitive economic environment.

**Applicability of Corporate Governance**

The applicability of corporate governance in Indian environment is as follows,

**1. Developing and Improving the Competitive Advantage of a Corporation**

The growth of competitive advantage will be natural if a corporation or its services creates value for its buyers. The vision for innovating and the strategy for handling the process of delivering value are needed for the creation of competitive advantage. Any corporation which wants to make its strategies more successful formulates them by all the levels of employers to participate. The commonly used strategies which creates value to corporations are sales and marketing strategies, customer base and branding strategies.

**2. Assets a Corporation to Perform its Operations Efficiently by Avoiding Fraud and Malpractice**

The code of best conduct, policies and procedures controlling the behavior of individuals of a corporation are the elements of corporate governance. These elements help a corporation to perform their operations efficiently in the business environment and avoids the fraud and malpractices which damages the business. The ineffective management of best practices within a corporation has resulted in many problems or crises in several situations.

**3. Providing Protection to The Interest of Shareholders**

Corporate governance generally deals with a set of rules which emphasizes on the information transparency and management accountability. The corporate governance has laid fiduciary duty on management for carrying out its operations as per the best interests of all the shareholders and to adequately reveal or disclose the operations of the corporation. This is very significant when the ownership and management of an enterprise are managed by different people.

**4. Improving the Valuation of an Enterprise**

The enhanced management accountability and operational transparency helps in meeting the expectations of the investors and building confidence on management and corporations, which in turn increases the value of corporations. The companies which followed corporate governance standards have improved market valuations.

**5. Assures Compliance of Laws and Regulations**

The development of capital markets and the increase in the investments made by institutional shareholders and individuals in corporations which are not governed by specific shareholders led to jurisdictions all over the world which created regulatory frameworks for providing protection to investors. The rules and regulations relating to corporate governance and compliance are already released and few are yet to be released. In order to develop a good corporate governance, compliance is very essential. The corporate governance assures long term survival to a corporation and helps its shareholders to attain long term benefits.

**UNIT-5 STRATEGY IMPLEMENTATION AND CORPORATE ETHICS****5.15****Q14. Bring out the relationship between strategic management and corporate governance.****Answer :***April/May-II, Q6(b)*

The various definitions of corporate governance indicates that there is a definite relationship between corporate governance of an organization and stakeholder management along with its strategic management. Corporate governance is the governance of an organization which deals with relationship of three different stakeholders i.e., the shareholders or owners of the organization, the board of directors and the managers. At a wider level, corporate governance is more concern about the behaviour of three stakeholders towards each other and affairs of the organization.

Depending on model of strategic management of an organization, the relationship between corporate governance and strategic management is explained below,

**1. Corporate Governance and Strategic Intent**

The strategic intent of the organization deals with its vision and mission, business definition, business model and objectives, in all these aspects corporate governance plays an important role. The vision and mission of the organization deals with its aspirations and purpose respectively and these aspirations and purpose must be under control of the stakeholders. Corporate governance helps in designing the possible variance in aspirations and purpose which are observed by different stakeholders. The perceptions of director relating to future must with that of the managers. It is similar in case of purpose of the organization wherein if stakeholders have different perception relating to purpose then it creates problems for the strategic management. The stakeholders need to make a general agreement on business definition, business model and the objectives of the organization. With the help of different mechanisms of corporate governance, stakeholders can develop a general agreement through process of mutual understanding and compromise.

**2. Corporate Governance and Strategy Formulation**

It is the responsibility of top management of an organization to decide the specific corporate and business strategies. While deciding the strategies they must follow guidance provided by the board of directors and consider the objectives that the strategic management designed to achieve shareholders are more interested in acquiring higher returns on their investment. The strategies which are designed to achieve higher returns are in favour of the shareholders. Managers seek those strategies which are designed to

develop a constant long-term employment, enhance their decision making authority or provide higher job satisfaction. The mechanisms of corporate governance are required to harmonize the differences in objectives of shareholders and managers.

**3. Corporate Governance and Strategy Implementation**

Strategy implementation phase is completely under the control of managers of the organization. The board of directors or the shareholders have less scope for direct intervention. Strategy implementation identifies does strategies formulated gained the desired level of success, it is dangerous if managers deviate in strategy implementation from commitments made during strategy formulation process. In order to avoid such deviations, corporate governance mechanisms are needed.

**4. Corporate Governance and Strategy Evaluation**

During strategy evaluation, corporate governance becomes noticeable, shareholders and directors play an effective role evaluating the effectiveness of its strategy. It is done by way of strategic and operational controls.

Board of directors must make sure that objectives of organization are achieved and achievements are observed in results of organization. The mechanism of corporate governance like reporting the annual performance facilitates the shareholders to evaluate whether organization is on right path. A continuous guidance and monitoring of performance and behaviour of the organization is done by board of directors.

Hence, it's clear from above discussion that corporate governance is closely connected to the strategic management of an organization. The corporate governance mechanisms are designed in such a way to create conditions which give assistance to stakeholders of an organization that is managed in an open and honest manner.

**Q15. Trace the recent trends of corporate governance.****Answer :**

Few recent trends in corporate governance are as follows,

1. Board of directors are showing more and more concern in evaluating and reviewing the company strategy as well as developing it efficiently.
2. Institutional investors like pension - funds, mutual funds and insurance companies are strengthening greatly their activities on board as well as and are also intensifying their force over top-level management with an intention to develop and increase the overall corporate performance.

**5.16**

3. With the growing levels of globalization of the companies are basically upon the focusing international experience from their board members.
4. Shareholders states that directors and top managers hold huge/greater amount of stock in the firm and these stock is being used as a portion of directors compensation.
5. The size of the board is getting minimized. Firstly, due to less number of insiders and also that the boards does not want to have new directors with normal experience rather they prefer for the one who hold the specialized knowledge and skills.
6. Board exercises greater control over board functions either by spreading the combined chair CEO position under two different positions or by introducing a new outside director position.
7. There is an increase in the nonaffiliated outside directors or non-management directors who are increasing their powers especially in publicity held corporations. This is because the CEO's have been loosing their hold on boards. As results the outside members are being held responsible for annual CEO evaluations.
8. 'Society' as an indicator of special interest groups insist the board of directors to stabilize or compensate the economic goal of profitability with the social needs of the society. Through this the board members would comes to know about the issues related with the work force diversity. Example, the board members of chase Manhattan corporation presently questioned the top level management about their moves and increase the number of woman and minorities in the management.

In strategic management of any corporation or the company, the role played by the board of directions is of greater significance in the near future. Investors states that they would be getting more pay as,

- (a) Good governance results in better performance.
- (b) Good governance minimizes the company's risk.
- (c) Therefore, governance is one of the main strategic issue which must be implemented in each and every corporation for better results.

**5.4 GOOD CORPORATE CITIZENSHIP**

**Q16. What do you understand by good corporate citizenship? Explain the new beliefs of socially responsible businesses.**

**Answer :**

**Good Corporate Citizenship**

Citizenship refers to the rights and duties of member of a specific country. As companies are independent legal entities and members of countries, so they are considered as corporate citizens with legal rights and duties.

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Hence, all companies are corporate citizens but their citizenship performance is not same for all. According Marsden and Andriof, a good corporate citizenship is an understanding and managing of company's effect on society for the benefit of the company and society as a whole. It is used as a synonym for the term corporate societal responsibility and is closely related with idea of sustainability.

Corporate social responsibility enables business to perform more than making profits. It is believed that all the activities of business will have impact either inside or outside of the company, customers, employees, communities and even on natural resources.

CSR involves four areas i.e., environment, workplace, community and market place wherein companies can make a difference by performing programmes, monitoring and modifying the effects of their operations. These changes in thinking and acting are because of new beliefs which are common for socially responsible businesses.

**New Beliefs of Socially Responsible Businesses**

Following are the new beliefs of socially responsible businesses,

1. Employees become more productive if they are able to perform meaningful jobs at fair wages and if involved in decision making and if they could manage their work and family life.
2. Reputation of company is also considered as more important because consumers and investors consider performance and reputation as essential as price in purchasing decisions.
3. Companies operate effectively in long run if community is healthy and involves less crime rate, sufficient education and health care, skilled labour and strong economic activity.
4. Companies must forecast future operations and make decisions to have a more holistic view of the world. Short term profits are sacrificed to earn long term benefits.
5. Companies which respect environment in all areas of operations will reduce waste output, generate high quality products and services, reduce costs of regulatory compliance and possess high resources efficiency.

Above mentioned beliefs seems to be odds with traditional beliefs, business to become socially responsible must be profitable. So that it can provide sustainable jobs to employees, returns to investors and prosperity to the community.

## 5.5 ENVIRONMENTAL CHANGE - ATTAINING BEHAVIOURAL CONTROL

**Q17. Explain the different approaches of control system to ensure informational control.**

**Answer :**

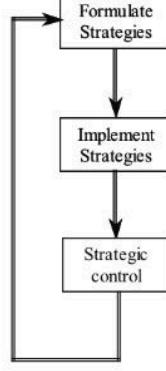
Informational control is the capability of firm to effectively respond to environmental change. A firm makes use of two major forms of control systems for assuring informational control. These two control systems are,

- Traditional/conventional approach to strategic control
- Modern/contemporary approach to strategic control.

### 1. Conventional Approach to Strategic Control

The traditional approach to strategic control follows a sequential order i.e.,

- Firstly the strategies are formulated and the senior-level management sets the objectives.
- Secondly the strategies are implemented.
- Finally the performance is measured by comparing the actual performance with predetermined set of goals. The figure given below depicts the traditional approach to strategic control.



**Figure: Traditional Approach to Strategic Control**

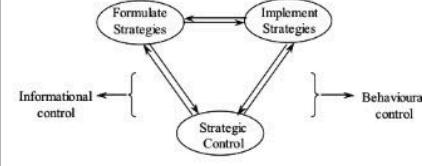
In the traditional control system the control depends on a feedback loop which is from performance measurement to strategy formulation. This type of traditional control systems are also called "single loop" learning. However, the process involved in it is time-consuming and is tied-up with the firms annual-planning cycle. Chris Argyris of Harvard university observed that this control system only compares

the actual performance with the predetermined objectives/goals. This method is more suitable when the environment in which the firms operates is stable and simple where goals and objectives can be easily measured with a high-level of certainty and the complex measures of performance such as sales quotas, operating budgets, production schedules and other quantitative control are required upto minimum extent.

The organization which achieved success in the past can also fail to adapt their objectives and strategies as per the new circumstances. The best example is cisco system, whose market value was remarkable at one time i.e., \$ 600 billion but, it was only \$ 110 billion previously. The cisco has reduced the chances of occurrence of such problems in future by making improvements in its informational control systems. The other firms like siebel systems were more successful in forecasting the necessary changes and made suitable modifications to their strategies.

### 2. Contemporary/Modern Approach To Strategic Control

The most important and an indispensable part of strategic control is to anticipate and introduce both internal and external environmental changes. The modern approach to strategic control is depicted in the figure given below,



**Figure: Contemporary Approach to Strategic Control**

In the above diagram, it can seen that the relationships between strategy formulation, implementation and control significantly influences each other and there are two types of strategic control i.e, informational control and behavioral control.

#### Informational Control

Informational control mainly deals with whether the organization or firm is "Performing right things" or not.

#### Behavioural Control

The behavioral control on the other-side determines whether the organisation is "Performing the things right" for executing the strategy.

Therefore, the informational and behavioral elements of strategic control are essential but may not be sufficient for success. The informational control deals with both the internal as well as the external environment and acts as a basis for creating an organisations strategy. The informational control under modern approach acts as part and parcel of

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## STRATEGIC MANAGEMENT

organisational learning process which updates periodically and challenges the assumptions underlying the organisation's strategy. This approach is termed as 'double-loop' learning as the assumptions, premises, goals and strategies are regularly controlled, examined and assessed which in turn helps in reducing the time-lags and strengthening the organisation's capability to respond quickly.

The contemporary control systems keep the up-to-date record of strategic uncertainties which senior-level managers are concerned about. Based on the type of business, these uncertainties are concerned with the changes in technology, customer tastes, government regulation and industry completion. These control systems are introduced to collect the information which can challenge the strategic visions of the future. So they are termed as the "hot-buttons" for senior-managers.

### Q18. How it is possible to attain behavioural control?

#### Answer :

Behavioural control is emphasized upon implementation i.e., 'carrying out/conducting the things right'. For effective implementation of strategy it is quite essential to have three major control "levels" namely culture, rewards and boundaries.

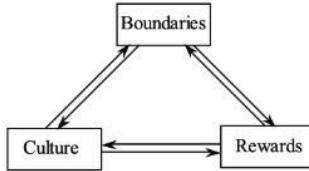


Figure: Essential Elements of Behavioural Control

These three levels or elements of behavioural control must have consistency among them.

#### 1. Building a Strong and Effective Culture

The term 'organisational culture' refers to a system of shared values and beliefs which would transform and shape the company's people, organisational structures and control systems in order to develop behavioural norms.

Culture can be explained in several ways each made-up depicting values that retains the 'organisation's' major source of competitive advantage'.

Few Examples are,

- ❖ Federal Express and Southwest Airlines emphasizes greatly upon the customer service.
- ❖ Lexus/Branch of Toyota and Hewlett-Packard focuses upon the product quality.

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Organisational cultures do not remain strong and powerful without any commitment in the form of deeds and words (i.e., oral as well as written) by the leaders throughout the organisation. Because it is mostly being observed that, reasonable and productive organisational culture can be developed and improved if once they are cultivated, encouraged and fertilized in a systematic manner.

Example, Southwest Airlines introduced a "Culture Committee" that acts as a unique vehicle in maintaining the company's highly successful culture.

#### 2. Motivating with Rewards and Incentives

Reward and incentive systems depict/acts as a strong means of effecting the organisation's culture effecting the beliefs, behaviors and attitudes of people inside the organisation. Whereas, the reward system states who will be rewarded and why? Therefore, acts as an effective motivator and control device.

In order to have effective and successful reward and incentive systems, the organisation must strengthen the fundamental core values and increase cohesion and commitment towards achieving goals and objectives. However, reward and incentive systems for being effective in nature must possess several common features as follows,

- ❖ Precise objectives which are easily understandable and widely accepted.
- ❖ Rewards must be related precisely with performance and desired behaviours.
- ❖ Performance measures must be clear, concise and highly visible in nature.
- ❖ Must have faster and quick feedback.
- ❖ The compensation system must be fair and equal to all.
- ❖ The structure must be flexible i.e., can change as the circumstance changes.

#### 3. Setting Boundaries and Constraints

If boundaries and constraints are used inappropriately then, it would act as a major source in fulfilling other purposes for organisations as follows,

- (a) Focusing upon the individual efforts according to the strategic priorities.
- (b) Providing short-term objectives and action plans to channel efforts.
- (c) Improving efficiency and effectiveness.
- (d) Minimising improper and unethical conduct.

**(a) Focusing Efforts According to Strategic Priorities**

An important role is being played by the ‘boundaries and constraints’ as they mainly focus on company’s strategic priorities. For example, one of the popular strategic boundary in U.S industry is Jack Welsch, a former CEO of GE claims that any business under corporate portfolio can be ranked first or second in its industry.

**(b) Providing Short-term Objectives and Action Plans**

Short-term objectives must have the following attributes in order to be effective,

- ❖ Specific and measurable.
- ❖ Specific time horizon must be defined for achieving short-term objectives.
- ❖ These short-term objectives should be attained easily in turn it also motivates the managers.

Action plans are also important when short-term objectives must be attained. Action plans therefore, is a major criteria for implementing the selected strategies. Thus, action plans must be specific, clear and concise.

**(c) Improving Operational Efficiency and Effectiveness**

Rule-based controls are more suitable and appreciable in any organisation if they hold these features.

- ❖ Stable and predictable environments.
- ❖ Many employees are unskilled and interchangeable.
- ❖ Product and service constancy is crucial.

**(d) Minimizing Improper and Unethical Conduct**

Guidelines acts as a helpful and useful instrument to maintain smooth and effective relationships with a company’s customers and suppliers. For instance, most of the companies exercise and follow certain explicit rules with respect to commercial practices like prohibition of any form of payment, bribe or kickback.

**Behavioural Control in Organisations: Situational Factors**

Behavioral control assures the behavior of individuals at each and every level of organisations to achieve desired goals and objectives. This behavioral control possess three types of control i.e., culture, rewards and incentives, boundaries and constraints. How several approaches to behavioral control are linked with few situational factors are being explained as follows,

**(a) Culture**

- ❖ Uncommonly found in professional organisations.
- ❖ Cultural aspect is related with high autonomy.
- ❖ Norms acts as foundation for behaviour.

**(b) Rules**

Rules refer to written and explicit form of guidelines which helps in having the external constraints/restrictions over behavior. Few situational factors are,

- ❖ Rules are associated with standardized output.
- ❖ Rotten repetitive tasks follows.
- ❖ There is need for innovation (or) creative activity upto some extent only

**(c) Rewards**

Rewards can be used as performance-based incentive system for motivating the employees. Some situational factors are,

- ❖ Output and performance is measured/quantifiable.
- ❖ Appreciable mostly in organisations which follows unrelated diversification strategies.
- ❖ Rewards helps in strengthening other means of control.

## 5.6 INSTALLING CORPORATE CULTURE AND PROMOTING SMART GOVERNANCE

**Q19. What do you understand by corporate culture? Explain the important features of companies corporate culture.**

**Answer :**

**Corporate Culture**

The term culture is an Anthropological term. Culture refers to the underlying values, beliefs and codes of practice that makes a community what it is.

Culture is generally subjective and reflects the meanings and understanding that we typically attribute to situations.

Deal and Kennedy says that culture is the single most important factor accounting for the success or failure of an organisation.

The following are the definitions of organisational culture,

- (i) Organisational culture is defined as the set of assumptions, beliefs, values and norms that are shared by an organisation’s members.
- (ii) According to Edgar and Schein, organisational climate is a pattern of basic assumptions invented, discovered or developed by a given group as it learns to cope with its problems of external adaptation and internal integration that has worked well enough to be considered valuable and therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems.

Every organization has its own corporate culture which is different from others. Culture is characterized by the business principles, work practices, ethical behaviour, history, tradition, beliefs and so on.

In other words, corporate culture is an organization's internal work environment which explains "how tasks have to be performed in that organization".

Thus, organisational culture is a set of assumptions that the members of an organisation share in common. The assumption may be in the form of internally-oriented characteristics or externally-oriented characteristics. Internally-oriented characteristics include values, attitudes, beliefs, feelings, personality types etc., also known as abstract elements of culture. Externally-oriented characteristics include buildings, products, dresses etc., also known as material elements of the culture.

#### **Features of Company's Corporate Culture**

The corporate culture of a company or an organisation reflects the 'personality' or 'character' of its work environment. It includes the factors, which the company uses for conducting its business and the behaviours which are especially meant for high-esteem. The important features of company's corporate culture are as follows,

##### **1. Values and Principles**

The values, business principles and ethical standards which are practiced and recommended by the management in the organisation. Therefore, it is rightly said that actions speak much louder than words.

**2. Company's Approach Towards the Employees** way in which the company approaches to its employees by. The implementing official policies, procedures and operating practices symbolizes the behavior of the company personnel.

##### **3. The Spirit and Character Which is Spread Through-out the Work Environment**

Is the workstation dynamic and enjoyable, methodical and all-business, tense and harassing or highly competitive and politicized?

Are employees interested towards their job and relate with their task emotionally or just completes their task to draw a pay cheque?

Is there any focus on entitled employee's creativity or do people have some sort of sensitivity for how to do their jobs?

##### **4. The way in which the Managers Interact and Relate Each Other**

How much dependence is there on team work and open-communication?

Upto what extent there is a good relationship among the employees and management?

Are employees known and called by their first names?

Does the co-workers spend little or much time together outside the workstations?

What are the dress codes of the employees?

##### **5. The Strength of Peer Pressure to do Things in Specific Manner and Follow Desired Norms.**

What actions and behaviours are acceptable and rewarded by management as compensation and promotions?

##### **6. Traditions and Often-Repeated Stories**

Does the company values and respect the traditions and often-repeated stories? Does the people talk about 'heroic acts/events' and 'how the things goes around in the work climate'?

##### **7. External Stakeholders**

How company deals with the external stakeholders especially, vendors and local communities (where it performs its operations)?

Does it treat its suppliers as business partners or prefers toughminded, arms length business arrangements? How strong and authentic is its commitment towards corporate citizenship?

#### **Q20. Discuss about strong versus weak cultures.**

##### **Answer :**

The company cultures differs to a great extent in terms of strength and influence. Few are strong and significantly influences the company's practices and behavioural norms. Whereas the others are weak and influences the company's operations only to some extent.

##### **Strong Culture Companies**

A strong culture company is characterized by firmly established values and operating procedures which govern the activities of the company and the climate of its workplace. These strong cultures are created over a period of time. The senior managers in the strong culture companies repeat these principles and values to the organizational members and also elucidate how they are related to its business environment.

The expectations of the company that the personnel will act and behave as per the adopted values leads to two significant results,

- (i) Over a period of time, the values would be exchanged by various rank-and-file employees and the individuals who do not like the culture can leave and,
- (ii) The individuals have high pressure from the colleagues to follow, the culturally approved norms and behaviours.

The three factors which are responsible for the creation of strong cultures are,

1. A founder or strong leader who creates values, principles, and practices which matches with the customer needs, competitive conditions, and strategic requirements.

**UNIT-5 STRATEGY IMPLEMENTATION AND CORPORATE ETHICS****5.21**

2. A honest and long lasting obligation of the company to carry out the business as per these is established traditions and hence creating an internal environment which strengthens decision making and strategies on the basis of the cultural norms.

3. A real concern for the well-being of the organisations three biggest constituencies i.e., customers, employees and shareholders.

The factors which helps in creating and sustaining a strong culture are leadership continuity, small group size, constant group membership, geographic concentration and substantial organizational success.

While implementing the strong culture, the company should make sure that, there is an appropriate fit between good strategy and culture.

**Weak Culture Companies**

In comparison to the strong culture companies the weak culture companies do not possess the values and principles which are constantly preached and shared. The reason behind this may be that the company have different (CEO's with varying values and views about the execution of the company's business.

So the company follow few deeply respected traditions and culture induced norms in its operating practices. As the top executives of a weak cultures company will not follow a specific business philosophy, operating practices behavioural norms and also do not dedicate completely towards specific values, the co-workers has less pressure to do the things in a specific way.

A weak culture company do not develop any strong loyalty among the employees towards the company's operations. The employees may only have few bonds of identification and loyalty with their department, unions, colleagues or their boss. The employees in such organisations do not have any strong passions or emotional dedication to work for the company. They just work to earn their living.

Weak cultures does not supports the strategy execution, as there are not traditions, beliefs, common bonds, values or behavioral norms, which can be used by the management to as standards for encouraging the execution of selected strtrategy.

Generally, the weak cultures emerges from moderately established subcultures which obstructs the development of an effective company wide work climate.

The major advantage of the weak culture is that, it does not pose a strong hindrance for the execution of a strategy, and the major disadvantage is that it does not supports culture building of the organization.

**Q21. Write a note on high performance culture and adaptive culture.****Answer :****High Performance Culture**

The high performance culture companies are characterized by a high personnel involvement and a strong focus on individual initiative and creativity. The employees of high performance culture companies have can-do-spirit, dignity in doing right things, no-excuses accountability, and have a work climate wherein people make extra efforts for attaining the objectives. The performance expectations of the company, organisational unit, and individual are clearly described in this culture. The issues and problems are quickly handled/solved and strong preference is given for being proactive rather than reactive.

All the personnel of the company (i.e., from senior executives to front line employees) will exhibits high performance behaviours and possess a strong desire for making the company successful.

This type of culture significantly contributes towards good strategy execution and operating excellence the high performance, result oriented cultures are widely spread with a zeal for attainment and also have a good track record in fulfilling the performance.

The difficulty faced by the manager in developing high performance culture is to create highly loyal and dedicated employees who are fully energised and make significant efforts to do the things in a right and productive manner.

The managers should strengthen constructive behaviour, reward top performers and encourage habits and behaviours which helps in attaining high productivity and good results. The managers analyses the strengths and weaknesses of their subordinates and assigns them the tasks according to their skills. The employees should overcome the stress, learn from their mistakes and should put continuous efforts for making good progress.

**Adaptive Cultures**

In the adaptive cultures, the organisational members are ready to accept the changes and ready to face the challenges of initiating and implementing new strategies. The company personnel are highly confident that the firm can deal with all the opportunities and threats which they come across, and are willing to take risk, experimentation and innovation.

These cultures supports the managers and employees who can initiate useful change at all the levels.

Senior executives search, assists and motivates the individuals who identifies the opportunities for enhancement and deploy their skills to execute them. The managers analyzes the ideas, suggestions, and takes the risks to exploit the emerging market opportunities.

Adaptive culture has two unique and dominant traits i.e.,

- (i) Any changes/variations in operating practices and behaviours should not undermine the core values and enduring business principles.
- (ii) The changes which are made in the firm should fulfill the legitimate interests of stakeholders i.e., customers, shareowners, employees, suppliers, and also the communities in which the company carry out its operations.

The adaptive culture can remain sound overtime if the top management organizes organisational changes in a manner which,

- (a) Exhibits legitimate care for the well being of all the significant constituencies.
- (b) Meets all their legitimate interests simultaneously.

The adaptive culture makes changes which will satisfy the customers and safeguards the company's security in long term. These changes are regarded as legitimate and is considered as the best way for identifying the interests of employees, stockholders, suppliers and the communities in which the companies carry out their operations.

The companies which are following this culture are technology companies, dot com companies and software companies. These companies tries to make changes by driving it, leading it and capitalizing it.

In today's rapidly changing business environments, it is very essential for the organisation to build a culture on which is ready to accept the changes in organizational practices and behaviours. The adaptive culture is advantageous for all the companies in all the environments. As the strategy of a company grows or emerges, an adaptive culture is required in strategy implementing and strategy executing process.

**Q22. Define E-Governance/SMART Governance. Explain the components and objectives of e-Governance.**

**Answer :**

*Model Paper-III, Q10(a)*

**E-Governance/SMART Governance**

E-governance is an IT driven system of governance which serves the needs of customers and businesses in less cost and effectively. It aims at developing more responsive, productive and effective administration. It is referred as SMART governance as it uses IT to process government functioning. SMART governance tries to generate Simple, Moral, Accountable, Responsive and Transparent governance.

E-governance is an arrangement of state governance as per the available electronic tools that are used for gathering, processing and communicating the information and providing government services to all the people

and business organizations. Due to this, the government organizations are able to achieve their tasks of providing accurate and centralized information to their users. In addition to this, various governments services like the telephone, wireless devices, internet and fax are provided by e-Governments to the people. Hence, it is a complex process which requires financial and administrative efforts for the effective implementation. Accurate action plans at each phase, mutual cooperation among stakeholders, efficient powers (legislative, executive and judicial) are the factors that contribute to the success of e-governance.

**Components of E-Government**

There are three main components that are present in an e-Government system. They are,

**(i) Component Oriented to Citizens (G2C and G2G)**

People can use and easily access the public services through the interactions made between government organizations and citizens and between the government organizations themselves.

**(ii) Component Oriented to Business or Private Sector (G2B and B2G)**

Information collection and processing can be made faster through the interactions made between the business and government organizations which even eliminate the need of paper documents.

**(iii) Component Oriented on Government Organizations**

Interactions among the government organizations enables the use of modern technologies thus reducing the delays and expenses and increasing the work efficiency and personnel motivations. Internal business processes can be efficiently handled through this approach.

**Objectives of E-Governance**

The objectives/aims of e-Democracy and e-Government constitutes the e-Governance objectives. e-Democracy has the following objectives,

1. To provide information access, services and choices of the political processes to citizens.
2. To allow the citizens to participate actively rather than accessing the information passively. This can be done by communicating, representing and encouraging the citizens.

To satisfy and fulfill the needs and expectations of the citizens. This can be achieved by simplifying the process of interaction using various online services such as ICT.

Hence, the main objective of e-Governance is to satisfy citizens and business organizations and to provide good governance to all the political parties. This can be achieved by applying various electronic means (tools) and to employ an economic, political and administration personnel for managing the affairs of the country.

**Q23. Explain the common characteristics of a cutting edge e-government projects. Discuss the challenges for developing e-government solutions.**

**Answer :**

#### **Characteristics of Cutting Edge E-Government Projects**

The following are the common characteristics displayed by the e-Government projects,

##### **1. Joint Ventures of Public-private Sectors**

The project managers of the government agencies can appoint experienced industry professionals of the debtor companies as a part of their social responsibility agenda. With this expertise, leadership skills and technical knowledge e-Government projects can reach new heights. (i.e., can significantly grow). Further, the equipments and resources needed for project development are taken from debtor companies rather than purchasing the new one.

##### **2. Stakeholder Alliance**

The stakeholders are identified based on their interests in the project. Once the stakeholders are identified, their involvement in project development is suggested.

##### **3. Interagency Collaboration**

Collaboration with interagency is quite a complicated task. For interagency cooperation the agency needs to be prepared well in advanced for the complications. This cooperation, however, enables the project to utilize the resources explicitly meant for interagency implementations.

##### **4. Availability to End Users**

The e-Governance projects are usually developed considering their availability to end users. These projects focusses on development of end users rather than providing a service that is in demand.

##### **5. Scalable Targets**

An ideal e-Government project posses scalable targets. The e-Government projects focus on timely delivery of products and services because government identity is at stake.

#### **Challenges for Developing E-Government Solutions**

Developing e-Government solution is not an easy task and infact there are several challenges involved in its development. Some of them are,

##### **(i) Political Challenges**

Political support is very important in developing e-government solution. This is because e-Government projects are very large-scale projects and requires huge resources, funds, empowerment, time, efforts, training and education. Political enthusiasm and support can help us in employing these resources. The lack of political support can even lead to failure of the project.

However, there are many obstacles in obtaining political support like bureaucracy, privacy, corruption, misuse etc.

##### **(ii) Social Challenges**

Any e-Government application will be successful only if it is adopted by the society (citizens). Social adoption should be the primary goal of e-Government application. The development team must identify the needs and requirements of each user group. The e-Government application should preserve the citizen's private information. The government should demonstrate to its citizens that their security and privacy is maintained.

However, some transactions that involve sensitive documents like passports, voter identity cards, birth certificates etc should be verified manually using the traditional method.

##### **(iii) Economic Challenges**

The financial resources of a country are limited, hence the budget given for the development of e-Government application will also be limited. Hence, proper budget control should be done. Moreover, by demonstrating the benefits of e-government applications, more funds can be raised from external sources.

##### **(iv) Technical Challenges**

The e-Government projects are usually large-scale and hence, they are complex with many technical challenges. The development team should address all technical problems and devise methods to solve them. Usually, governments choose to use an already tested system, but if it does not suit their needs then the system might fail.

Some governments decide to use open source and open standards for the development of e-Government application. The privacy and security issue must also be solved.

**Q24. Explain briefly the different dimensions of e-governance.**

**Answer :**

The following are the different models or dimensions of e-governance,

##### **1. Government to Citizen (G2C)**

As its name suggests, the model of e-governance will connect the citizens of a country to their government. It employs various democratic and public services. The government can contact their citizens and listen to their suggestions, thereby improving the society. This model will have the following services,

<p><b>(i) e-Citizen</b></p> <p>This will provide integrated service centers, which will offer many services to citizens at one place. For example, issue of certificates, ration cards, payment of bills and taxes, submission of passport application etc. The 'e-seva' is an example of one such center in Andhra Pradesh.</p> <p><b>(ii) e-Transport</b></p> <p>These centres will provide RTA (Road Transport Authority) related services including registration of motor vehicles, issue of driving licenses, tax and fee collection etc.</p> <p><b>(iii) e-Education</b></p> <p>These centres will provide educational services to citizens.</p> <p><b>(iv) e-Medicine</b></p> <p>Hospital of different states are linked to provide a collaborative and improved medical service.</p> <p><b>(v) e-Registration</b></p> <p>It provides services for registration of properties, transfer of properties, payment of tax duty etc.</p> <p>The citizen's services aim to improve the service in five dimensions, they are, speed, quality, reliability, convenience and cost.</p> <p><b>2. Consumer to Government (C2G)</b></p> <p>This model deals with interaction of citizens with government. Applications like electronic voting (elections), census, tax payment etc comes under this model.</p> <p><b>3. Government to Business (G2B)</b></p> <p>Industries, business or enterprises are chief sources of income to a country. Business usually require a lot of interaction with the government, for example, when paying taxes, fees, getting licenses etc. A service name e-taxation will provide a business with all these needs. In order to develop G2B services, government must implement standards, provide secure payment mechanism, implement PKI (public key infrastructure) for performing secure and authentic transactions.</p> <p><b>4. Government to NGO (G2N)</b></p> <p>This model of e-governance aims at building connections between government and non-government organizations. This will add to the betterment of the society. It can be achieved through interaction and publication. i.e., the citizens and NGOs should be allowed to involve in government and activities through publication and interaction.</p>	<p><b>5. Government to Government (G2G)</b></p> <p>This model aims at developing and improving government processes. It is also known as e-administration. This model involves linking of all government offices into a network, so that they carryout administrative jobs easily. The most important areas in this model are,</p> <p><b>(i) e-Secretariat</b></p> <p>Aims at linking various government departments such that there is exchange of information among them.</p> <p><b>(ii) e-Police</b></p> <p>Aims at keeping track of both police personals and criminals. The personnel database will store records of police officers, their previous posting, specialization etc. This information will help in intelligent posting and promotion of police officials. The e-police service also include online FIR filing, finding case status etc.</p> <p><b>(iii) e-Court</b></p> <p>This area aims at transforming the manual legal system to an automated system. The judges of higher courts like supreme court, high court can consider appeals from a remote location using the intranet. The judges can give their decisions online based on the recorded facts of the case.</p> <p><b>Q25. What are the issues and risks associated with e-governance?</b></p> <p><b>Answer :</b></p> <p><b>e-Governance Issues</b></p> <p>Generally, there are several issues associated with the implementation of e-Governance, they include,</p> <ol style="list-style-type: none"> <li><b>Sufficient Funds</b></li> </ol> <p>The first and foremost issue in any e-Governance implementation is allocation of sufficient funds. Funds for the e-Governance projects can be obtained either from private sector or from government sector. However, sufficient funds must be allocated, otherwise the project cannot be completed.</p> <ol style="list-style-type: none"> <li><b>Change Compatibility</b></li> </ol> <p>e-Governance involves the utilization of EDI, internet and other IT based technologies. Thus, several procedural and legal changes must be made to the decision and implementation processes. This in turn involves a change in government decision management.</p> <ol style="list-style-type: none"> <li><b>Privacy</b></li> </ol> <p>End user privacy must also be ensured. Whenever an end user participates in a transaction with a government agency, he/she discloses personal details which may include sensitive data. Thus, security for such data should be provided in order to maintain the end-user privacy. This security can be provided by making use of secure transmission channels, fire walls for preventing unauthorized access etc.,</p>
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#### 4. Authentication

Authentication is another issue that must be considered while providing the government services. In other words, the government agency must ensure that the services are provided only to the legitimate users. This can be done using digital signatures. However, it incurs an additional cost and overhead.

#### 5. Interoperability

Another issue associated with e-Governance is how the data captured in web-based forms can be processed by the agency systems.

#### 6. Service Delivery

Government agencies must also consider the financial status of the end user because, internet access and P.C awareness is rare in certain locations. Therefore, a framework for delivery of e-services to the poor and uneducated people must also be designed.

#### 7. Technological Issues

Several state and central organizations have taken the responsibility for development of hardware and software platforms that address e-Governance challenges. Some of these organizations include CDAC, CMC, RAM infosys etc.

#### 8. Language Used

Information must be provided in location dependent language so that more and more users are reached. The technology such as GIST can be used for translation of information from English to other language.

#### e-Governance Risks

The risks associated with e-Governance include,

- (i) Political stability
- (ii) Level of trust
- (iii) Prevention of government identify
- (iv) Maturity levels
- (v) Government structure
- (vi) Economic structure of agency
- (vii) Demand for elements.

All these risks must be carefully considered for successful implementation of an e-Governance agency.

#### 5.7 RE-DESIGNING ORGANIZATIONAL STRUCTURE AND CONTROLS

**Q26. What is organisational structure and what are organisational control? What are the differences between strategic controls and financial controls? What is the importance of these differences?**

**Answer :**

#### Organisational Structure

The term organisational structure defines the firm's formal reporting relationships, procedures, controls, authority and decision-making processes. Due to the uncertainty associated with the cause-effect relationships in the global economy which is instantly changing and dynamic competitive environments, it is very difficult to design an effective organisational structure. When the elements of structure like, procedures, controls etc., are aligned in a suitable manner (i.e., one after another) then the structure helps in using the firm's strategies effectively. This signifies that the organisational structure is the major element in the effective strategy implementation processes.

Effective organisational structure possess two features,

#### (a) Structural Stability

It gives the capacity which the firm needs for monitoring and controlling its daily operations regularly from the future perspective.

#### (b) Structural Flexibility

It gives an opportunity to the firm competitive potentials and allocate the resources to the activities which builds the competitive advantage that is necessary for any firm to be successful in future.

#### Organizational Controls

Organisational controls manages and directs the use of strategy, compares the actual results with the expected outcomes and takes corrective measures if the difference is not appropriate. In the absence of effective organisational controls, a firm or a company is not able to utilise the competitive advantages successfully. Therefore, effectively designed organisational controls gives clear information and understanding about the behaviours which improves the firm's overall performance. While designing the organisational controls the firms. Usually makes use of strategic controls and financial controls.

**Difference between Strategic Controls and Financial Controls**

1. Strategic controls is mainly concerned with the evaluating the extent to which the firm is using adequate strategies in the external environment conditions and company's competitive advantage whereas, financial controls is used to evaluate the firm's performance by comparing it with the previously introduced quantitative standards.
2. Strategic controls focus on evaluating the fit between what the firm might do? (i.e., proposed opportunities in its external environment) and what it can do? (i.e., as shown by its competitive advantages). Whereas, financial controls mainly focus on evaluating the firm's performance with the help of unrelated diversification strategy which is concerned with financial outcomes.
3. Strategic controls and measures the extent to which the firm focus on the requirements for implementing its strategies. Whereas, financial controls measures the firm's present performance with the past outcomes as well as with the competitor's performance and industry averages.
4. Strategic controls makes use of corporate level strategies to check or verify the sharing of suitable strategic factors like knowledge, markets and technologies across businesses. On the other side, financial controls, make use of accounting-based measure like, Return on Investment [ROI] and Return on Assets [ROA] and market-based measures to evaluate the firm's financial performance.
5. Strategic controls requires strong and intense communications among the managers for measuring the firm's performance towards the implementation of strategies and the executives must have a clear insight for how to use it effectively. The financial controls on the other side achieved technological advancement in the global economy which helped in evaluating the firm's performance completely.

**Importance of Strategic and Financial Controls**

1. The efficiency of organisational structure is determined by using both strategic and financial controls so both the controls are considered as important features of each and every organisation.
2. The usage of controls depends on the type of strategy used by the firm. The companies and business units of large-diversified firms which makes use of cost-leadership strategy focusses on financial controls (like quantitative cost goals) whereas the companies and business units which makes use of differentiation strategy focuses on strategic controls (like the subjective measures to increase the efficiency of product development teams).
3. The firms should use these controls in a uniform manner and should maintain the balance between the two. More emphasis on one control at the expense of other control may results in the decline in the performance.
4. In the words of Michael Dell, more emphasis ove financial controls to generate best short-term results has given rise to complexities recently at Dell Inc. For dealing this issues Dell has reorganised his firm to attain a suitable emphasis on both short as well as long-term wherein, more emphasis is on strategic controls.

**Q27. Explain the various restructuring strategies used by the firms.**

**OR**

**Discuss redesigning strategies of firms.**

**Answer :**

**Restructuring Strategies**

Restructuring is a set of discrete determined measures which are taken to stay ahead in the competition and to improve the value of the organization. The main aim of restructuring is to transform the organisation or redesign the firm so that it provides maximum value to its owners, by competing directly with other suppliers in the market who provides similar products and services. The restructured organisation can provide quality products and services at low price which helps in satisfying the needs of customers and earning adequate profits.

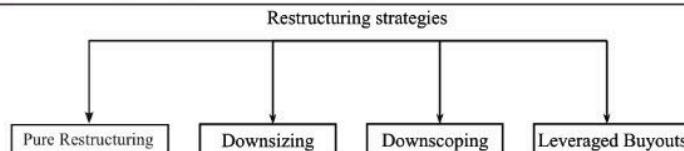
**Types of Restructuring Strategies**

Restructuring strategies are those strategies which facilitate in changing the financial structure or the sets of businesses of a firm. These strategies are useful in situations when acquisitions or mergers show a signal of negative results. Changes in external and internal environment also make the firms to go for the restructuring strategies. The restructuring strategies are termed as the best way to make use of the available opportunities in the markets.

Restructuring strategies are basically of four types i.e., pure restructuring, down sizing, down scoping and leveraged Buyouts.

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**Figure**

#### **1. Pure Restructuring**

Under pure restructuring, the company focuses on changing the business status or it may change the business relations rather than changing its business portfolio or business size. It establishes new subsidiaries and it may sometimes rearranges the business for better control.

Pure restructuring is also carried out for tax considerations. For this, the company may spin off a subsidiary or merge a subsidiary with the parent company.

#### **2. Downsizing**

Downsizing strategy refers to the reduction in workforce who performs the operations of firm. There are many reasons behind following this strategy. One basic and important reason is to minimize the costs upto the maximum extent. Since 1980's downsizing strategy is being greatly followed by majority of the worldwide firms. As a result thousands of employees are losing their jobs. In the year 2001 - 2002 nearly 1 million individuals became jobless due to downsizing. Thus strategy is considered as one of the significant restructuring strategy.

#### **3. Downscoping**

Downscoping brings positive results than downsizing. A downscoping strategy is the one which makes the firms to refocus on its core competencies. Under this strategy, a particular firm tries to remove its businesses which are not related to its core competencies. For example, Tata Group is one of the leading business group in India. Initially, this firm included nearly 250 businesses carrying out its business under its name. In order to be more efficient and competitive in the markets, Tata Group adopted downscoping strategy. Thus, as a result its businesses were reduced from 250 to 91 during a period of 10 years.

Downscoping strategy allows the firms to concentrate on few businesses only in highly strategic manner. This strategy is mostly used in United States when compared to the other countries. Downscoping significantly increases the effectiveness, efficiency and competitiveness of the firms. The Management of the firms can better understand and administer various issues as the businesses are less in number. Downscoping might also result in downsizing. In this case only skilled and professional employees would be able to retain their job.

#### **4. Leveraged Buyouts**

A LBO i.e., Leveraged Buyout is a restructuring strategy, wherein a party purchases all the assets of the firm with an aim to make it private. Apart from many reasons of buyouts few basic reasons for leveraged buyout is safeguarding the firm against the unfavorable financial market, enabling the owners to emphasize on promoting innovations and introducing in the market . Sometimes, it may also happen that the managers of a company perform the functions for their self interest and not in the interest of shareholders. In such circumstances, trading of such company's shares would be stopped and the assets would be sold to the other private owners.

Buying of a public limited company requires huge debt thus it is termed as Leveraged Buyouts. Leveraged Buyouts are further classified into.

- (i) Management Buyouts (MBO's)
- (ii) Employees Buyouts (EBO's)
- (iii) Whole - firm buyout.

## 5.8 STRATEGIC LEADERSHIP

**Q28. What is strategic leadership? What are its themes?**

**Answer :** *Model Paper-II, Q10(b)*

### Strategic Leadership

It is very important for the leaders to clearly express and communicate a strong vision to the employees, so that they get motivated and drives towards the future. An effective leader always aims for future, sets a course for future and involves all the organizational members to move in the same direction. The success of the organization mainly depends on the decision taken by the strategic leaders. So, the top managers play a very important role in monitoring the internal and external environments of the organization, developing the organization's resources and capabilities, identifying business threats, keeping a record of changing market trends and creating a vision for the future, so that all the organizational members can believe and follow it.

Strategic leadership is regarded as one of the most important part of the organization. Strategic leadership is defined as the individual's capacity to anticipate, envision, maintain flexibility, to think strategically and to work along with others for implementing change which will create a competitive advantage for the organization.

Strategic leadership directs and inspires in creating and executing vision, mission and strategies for accomplishing the organizational goals.

An effective strategic leadership helps the organizations to,

- ❖ Make use of proper and suitable strategies.
- ❖ Have a strong and dedicated management.
- ❖ Concentrate on target markets.
- ❖ Create and sustain competitive advantage for long period of time.
- ❖ Maintain effective relationships with customers and clients.

An effective strategic leader carry out four important functions which are as follows,

1. Creates values, vision and mission for the organization.
2. Clearly expresses the objectives, strategies, policies and structures which changes the vision, values and mission to business decisions.
3. Creates a learning environment and culture for an organization.
4. Serves as a role model for the organizational members.

Strategic leadership plays a very important role in strategic management process. It makes sure that the strategic management process is performed effectively and obtains expected results for the organization.

### Themes of Strategic Leadership

There are seven themes for the strategic leadership. They are,

#### (i) Strategic Vision

Vision is an imaginary view of the future. So, the strategist has to firstly create a vision statement in the strategic management process. The vision statement helps the organizational members to know where the organization is going to be in future. Vision mainly deals with the "what and where" aspects of the company.

All the individuals should participate while creating a vision, so that it can be accepted by everyone in the organization.

A strategic vision is defined as an imaginary view of future which all the organizational members believe in and is not easily achieved. Strategic vision provides an overview of an organization in the coming future.

### Examples

#### (a) Microsoft

The vision of Microsoft is to get computer on every desk in every home.

#### (b) American Express

The vision of American Express is to become the world's most respected service brand.

#### (ii) Pragmatism

Strategic leaders should adapt a pragmatic approach to solve the management problems and for the attainment of desired results. In order to be pragmatic, the leaders should follow those methods which helps the firm in the optimal allocation and utilization of resources.



Figure: Themes of Strategic Leadership

**(iii) Structure and Policies of Organization**

Strategic leaders should act as agents to change and set the rules and policies for better regulation of the organization structure. They should also involve in resolving all the problems and issues prevailing in the organization. The major issues of the organization are related to the following aspects,

- (a) The structure of the organization
- (b) Division of organization into independent units
- (c) Delegation of power and authority across the various hierarchical levels
- (d) Role of the head office
- (e) Empowerment of employees and
- (f) Integration and decision-making.

Strategic leaders should design/draw the policies to regulate/control and to resolve these issues of the organization.

**(iv) Communications Network**

Strategic leaders should maintain lateral communications along with the upward and downward communications across the organizational hierarchy i.e., communications between the various departments or divisions of the organization. It is necessary to know the best practices followed by the other divisions for improving the profitability of an organization.

Leaders should communicate the policies and strategies that have been formulated to all its employees for effective implementation and desired results. They should also develop an effective communication with the stakeholders to maintain the relationship between company and them.

For effective leadership they should be best in their actions.

**(v) Culture**

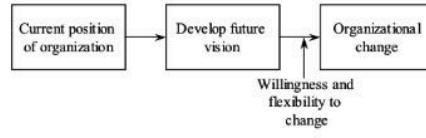
Organisational culture is defined as the set of assumptions, beliefs, values and norms that are shared by an organisation's members.

According to Edgar and Schein, organisational climate is a pattern of basic assumptions invented, discovered or developed by a given group as it learns to cope with its problems of external adoption and internal integration that has worked well enough to be considered valuable and therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems.

**(vi) Managing Change**

Strategic leaders, being an agent of change should manage the change in the organization for continuous success. The success of the organization through organizational change has been influenced by both external and internal factors which include competitors, government policies, market fluctuations, technological changes and changes in the organization strategy. As these factors have resulted in rapid changes in the external environment of the organization (for this it needs to manage).

Strategic leaders need to have clear future vision for the effective management of change. They should analyze all the opportunities and threats while designing the strategies so as to implement change in the organization for better performance than past. Strategic leaders should grab the best opportunities before the competitors and resolve the issues in the initial stage while implementing change in the organization. They should motivate the employees to take-up active roles and participate in the implementation of organizational change.



**Figure: Strategic Change**

**(vii) Governance and Management**

Strategic leader has the following responsibilities for proper governance and management of the organization,

- (a) Determine strategic direction through developing a mission statement
- (b) Formulating and implementation of changes
- (c) Monitoring and controlling
- (d) Designing the policies and guidelines for the team members
- (e) Achieving the desired results which are capable of realizing both individual as well as group goals.

Strategic leaders should develop the core competencies for the firm for the creation of value for their customers. This can be achieved by designing and implementing the effective strategies within the organization.

Strategic leaders should motivate and empower the employees by providing them with both monetary and non-monetary benefits to contribute and co-operate with the management for the successful accomplishment of objectives. They should also develop the organization control system so as to maintain a relationship between the goals, strategies and resources of the organization.

## 5.30

## STRATEGIC MANAGEMENT

**Q29. Discuss the issues which are involved in developing the strategic leadership.**

**Answer :**

Development of a strategic leaders is an important task of an organization as they are responsible for performing the major organizational activities such as, strategy formulation and implementation. It is the responsibility of the management of organization to develop the future strategic leaders. The practices for the development of strategic leaders varies from one organization to other. The three issues that are involved in developing the strategic leadership include,

- (i) Choice of future leaders
- (ii) Career planning and development
- (iii) Succession planning.

### **(i) Choice of Future Leaders**

One of the important decision in developing strategic leaders is selection of the future strategic leader. This decision plays a major role as it effects the entire success of the organization.

The policies and procedures vary because of the following reasons,

- (a) In public sector organizations, the top executive positions will be occupied by the professionals belonging to even the non-government system.
- (b) In a family owned private sector companies only the family members are allowed to hold the top positions of the organization.
- (c) Multinational companies follow specific procedures to select the future strategic leaders mainly based on the experience and their intelligence.

Most of the firms depend on the services of the head hunting professionals for recruiting the individuals as of strategic leaders. Example, Tata group of companies have been recruiting the CEO's from the services of Tata administrative firm since 1950. Some of the firms are also following informal methods for the selection of further strategic leaders.

**Example**

Moolgaokar, the chairman of TEL.CO a great judge of character follow an informal practice to select the senior managers as a strategic leaders. He would select managers from the junior ranks and train them under strict supervision, later they have been given certain responsibilities. Based on their performance he will delegate them the top most position in the organization.

### **(ii) Career Planning and Development**

For the development of the strategic leaders, firm may follow either the formal or informal practices.

Tata group of companies depends on the Tata administrative services for the development of their top managers, CEOs. Some organisations such as Satyam and Infosys have their own leadership training institutes for strengthening and developing the individuals in a desired manner which can later become the strategic leaders.

Most of the organisations appoints the leaders as assistants to the senior managers to advice and assist the CEOs and other managers in making decision about the crucial activities of strategic management i.e., formulation and implementation of strategies and strategic decision-making. This acts as a training for the assistants for the development of the leadership qualities. Later by considering these they can become a strategic leaders and can handle the major responsibilities of the organisation.

Some of the institutes such as administrative staff college of India and Indian Institute of Management provides training services for the development of the future strategic leaders which helps them in meeting the standards and requirements of the organizations.

The informal practices for developing the strategic leaders are screening the candidates based on specific criteria, assigning major responsibilities and tasks to the candidates and then evaluating their performance. Based on the results of evaluation, they have been offered with certain rewards.

In the family owned private sector companies these informal practices are very helpful to develop the top position leaders.

Some organization use both formal and informal practices which include training and development programmes along with the individual guidance and counselling by the senior managers.

### **(iii) Succession Planning**

The competition for the top positions will be very high as the organizational hierarchy is getting condensed with the existence of only few positions. The selection of the suitable strategic leaders and their development helps the organization to build talent based organization while, succession planning helps the management in planning for the replacement of the existing managers.

Mostly, small scale organizations depends on the entrepreneur whereas, the large scale organizations depends on the chief and dominant executive manager. If they left the organization by any reason (it may be death, disease, disability, conflicts etc.,), these companies rely on the professional search firms for the strategic leaders.

In most of the large scale companies, the succession planning involves number of boardroom battles. Whereas, in the family-owned companies there exists legal proceedings to decide upon the heirer of the organization occupying the top position. However, the government companies are found to be devoid of such conflicts.

Management has to focus more on the selection of strategic leaders, their development and on succession planning. But, the leadership is an ongoing process which helps the organization by determining strategic direction. These leaders have to shape the organization suitable to the changing environmental conditions. For performing the tasks effectively, strategic leaders need to be developed. The tasks include determining the organization culture, making use of corporate politics and power, exhibiting exemplary behaviour by setting high standards of ethics and values and helps the organization to be socially responsible.

### 5.9 STRATEGIC ENTREPRENEURSHIP

**Q30. What is strategic entrepreneurship and corporate entrepreneurship? How does strategic entrepreneurship helps firms in creating wealth?**

**Answer :**

#### Strategic Entrepreneurship

The term strategic entrepreneurship refers to the process of taking entrepreneurial actions with the help of strategic perspective. At the time when the firm is involved in 'strategic entrepreneurship' where it would find various opportunities available in the external environment and would make use of these opportunities with the help of innovations. This process is termed as 'entrepreneurship dimension' of strategic entrepreneurship. The most suitable and appropriate means of managing and controlling the firm's innovation efforts is called as 'strategic dimension'. Therefore, it is clear that those firms who are involved with the strategic entrepreneurship process usually integrates their actions in order to identify various opportunities and innovate/introduce it successfully.

In this period of competition, the success and survival of any firm mainly depends on their ability to constantly find out the new opportunities and promptly generate/create innovations to pursue them.

#### Corporate Entrepreneurship

Corporate entrepreneurship forms a major part of entrepreneurship discipline. It is mostly used for the success and survival of established firms because, it becomes easier to increase their performance and also helps in increasing the growth opportunities.

Therefore, innovation and entrepreneurship plays an important role in the extent of success attained by the newly established firms. Thus, corporate entrepreneurship is used as an application with respect to entrepreneurship incase of an established firms.

#### Creating Wealth Through Strategic Entrepreneurship

Newly established firms very kindly find out various entrepreneurial opportunities while the well-established firms hold more resources and capabilities which they make use in order to identified opportunities.

The new firms are good enough in identifying opportunity and they have 'opportunity-seeking' dimension of strategic entrepreneurship and well-established firms are best in 'advantage-seeking' dimension of strategic entrepreneurship. Therefore, it can be stated that, newer firms should learn how to be beneficial in a competitive advantage i.e., (advantage-seeking behaviour) and established firms should relearn how to traceout and clearly identify the entrepreneurial opportunities i.e., opportunity-seeking skills.

Usually, the firms in order to be 'entrepreneurial' needs to improve the mind set of managers and the employees. The managers should basically focus upon the management of their resources especially, human capital and social capital. With strong and powerful human-capital, any firm can identify and make use of the opportunities which are beneficial and maintain a competitive advantage. The social capital helps in easy access of the complementary resources from partners with an aim to compete both in domestic as well as international markets successfully.

The firms are usually free to get involved in any kind of international entrepreneurship with its ability and willingness because, many entrepreneurial opportunities continuously takes place in the international markets. If the firm enters into the global markets then, would get a chance/opportunity to learn about new technologies and management practices and spread it in the whole enterprise. As the knowledge which they gain would greatly contribute to their innovations. According to a research it was found that the firms operating in global markets are more innovative in nature.

Presently, large and entrepreneurial ventures are constantly entering into international markets who are innovative enough to compete efficiently and successfully.

The existing firms who are engaged in 'strategic entrepreneurship' would greatly contribute towards the country's economic development/growth. Similarly, a firm who tries to introduce their technology as a standard one are engaged in 'strategic entrepreneurship' which would provide competitive advantage for them.

### 5.10 CRAFTING SOCIAL RESPONSIBILITY

**Q31. How social responsibility strategy is crafted? Explain.**

**Answer :**

#### Social Responsibility

Social responsibility strategy of a company can be defined as, specific combination of socially beneficial activities it select or choose among other alternatives in order to assist and towards contributing their time, money and other resources'.

In order to be socially responsible a company or a firm needs to represent itself as a social conscience and select alternative means to exercise social responsibility.

## 5.32

## STRATEGIC MANAGEMENT

### 1. Efforts to Use an Ethical Strategy and Observe Ethical Principles in Carrying Out the Business

Wholehearted open commitment by a company or a firm is quite essential in order to observe ethical principles. This is because, few unethical strategies and conduct are not suitable with the concept of good corporate citizenship and socially responsible business conduct/behavior.

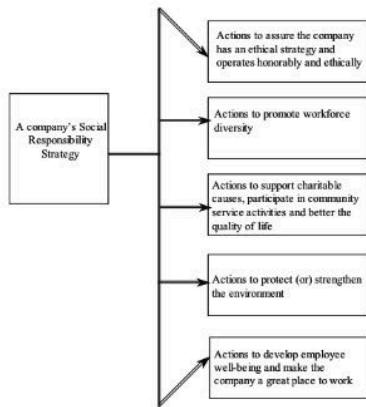


Figure: Demyelinating a Social Conscience: The Five Components of Socially Responsible Business Behavior

### 2. Making Charitable Contributions, Donating Money and the Time of Company Management Towards the Community Service Efforts, Supporting Different Important Organisational Causes and Reaching out to Make a Difference in the Lives of the Disadvantaged

Certain companies of corporate citizenship satisfies three corporate citizenship and community activities by increasing their efforts immensely. Consider an example of Microsoft and Johnson and Johnson who helps and assist broad range of community, art, social-welfare and environmental programs.

Some other companies wants to put in their efforts in a confined and restricted manner. For example McDonald's focuses basically upon sponsoring Ronald McDonald House program. British telecom on the other side has fixed one percent of profits to spend on the communities especially for education, teacher training, in-school workshops and digital technology. Pharmaceutical companies like Glaxo Smith Kline and other companies have also attempted to either donate or provide huge discounts on medicines for the easy distribution in the less-developed countries. Backward countries. Number of companies desires to work closely with the community personnel in order to minimize the influence

of hiring more number of new employees also offers the outplacement services to laid-off employees. Even some companies are engaged in strengthening their philanthropic efforts by motivating employees to assist charitable trust and participate in community activities via conducting programs that best suits the employee contributions.

### 3. Actions to safeguard or Improve the Environment and in Particular to Reduce or Abolish any Adverse Effect on the Environment Resulting out from the Company's Own Business Activities

Social responsibility refers to the 'environmental protection' i.e., more than what is legally needed. Companies acts as the 'caretaker' or 'stewards' of the environment from social responsibility point of view i.e., make use of best available science and technology in order to attain higher or greater environmental standards. Examples include, Retailers like Home Depot in the United States and B and Q in the United Kingdom focused their suppliers to introduce strong and powerful environmental protection practices.

### 4. Actions to Develop a Work Environment Which Improves the Quality of Life for Employees and makes the Company a Great Place to Work

Many companies attempts to implement a new work environment which would help in increasing the quality of life for employees. It may include different job assignments, career development programs and monitoring, quicker career advancement, appealing compensation incentives, ongoing training to ensure the future employability, added decision-making power, onsite day care, flexible work schedule for individual parents, work place exercise facilities, special leaves to take care of sick family members, work-at-home opportunities, gender pay equity, show case plants and offices, special safety programs etc.

### 5. Actions to Build a Workforce that is Diverse with Respect to Gender, Race, National Origin and other Aspects that Different People Bring to the Workplace

Greater number of larger organizations in the United States have introduced a new workforce diversity programs which assures the employees that their workplaces are and appealing to ethnic minorities and also to other attractive groups. This workforce diversity may result in sound business like Johnson/Johnson, Pfizer and Coca-Cola which assumes that reputation for workforce diversity is a right path for recruiting employees easily.

Multinational Companies (MNC's) especially makes use of the workforce diversity programs as visible strategic component while few other companies uses the diversity programs as a drive to spread suppliers i.e., sourcing items from small businesses owned and managed by women or ethnic minorities.

When all these activities of socially responsible companies pursues in conducting their business behaviour is termed as social responsibility strategy. An executive at Royal Dutch Shell States, corporate social responsibility is not simply a cosmetic but, it must be rooted expressed in our values that makes a difference in the way we conduct/do business'. Therefore, few companies tries to combine social responsibility objectives under their missions and entire performance targets by which they can easily observe social performance and environmental metrics an important aspect in evaluating the whole performance of the company from future perspective.

### 5.11 SOCIAL AND ETHICAL RESPONSIBILITIES OF CORPORATE ORGANIZATIONS

**Q32. Define business ethics. Discuss briefly about the objectives, need and importance of business ethics.**

**Answer :**

#### Business Ethics

The word business ethics is the combination of two popular words business and ethics. It is the assessment of business activities and behaviour and the act of categorizing them into right and wrong. Business ethics give more importance to moral standards because by applying them to business policies, institutions and behaviour efficient results would be obtained it is considered as an application of ethics in business. Basically, business ethics deals with the moral issues like how medical ethics concentrate on morality of medical practices and policies or how political ethics focus on morality of political affairs. Further, it is defined as the systematic act of managing values in business and industry.

#### Definitions of Business Ethics

According to Keith Davis, business ethics are the application of general ethical rules to business behaviour.

John Donaldson defines, business ethics as a study of moral (ethical) matters pertaining to business, industry or related activities, institutions or practices and beliefs.

Business ethics can be defined as the desired norms of behaviour particularly dealing with commercial transactions.

Business ethics mainly deals with the assessment and application of moral norms and values to the various transactions, institutions, technologies and other activities on which success of the business is dependent.

Business ethics act as the rules of business conduct with which the performance of the business activities and behaviour of managers could be assessed.

#### Objectives of Business Ethics

The ethical objectives are as follows,

1. To determine good conduct of a person and to set a standard. In this context, it is important to manage different interrelated and difficult issues which may have psychological, legal, commercial, philosophical, sociological and political nature.
2. The other ethical objectives are as follows,
  - ❖ To analyze human behaviour by conducting an assessment regarding morality and immorality.
  - ❖ To develop moral standards and norms of behaviour.
  - ❖ To make judgement on human behaviour on the basis of achieved standards and norms.
  - ❖ To suggest moral behaviour and make recommendations regarding the ideal behaviour of the employers.
  - ❖ To give an opinion or attitude regarding human conduct.

#### Need for Business Ethics

Business ethics are essential because of the following reasons,

1. **Operation of Business within the Society**  
Business acts as an important and the most significant component of a society as its functioning helps in improving the welfare of the society. Social sanction is a prerequisite for gaining acceptance by the society without which no organization can think of its survival. If business undergoes either expansion or diversification, then it is able to attract more number of customers. By serving the societal needs, organizations are able to create good image in the minds of public.
2. **For Long-term Success, Business is Required to Exist on Ethical Grounds**  
For achieving the long-term success, business needs to be ethical and socially responsible. For the survival of business, mere generation of profit isn't essential as it also requires to take appropriate actions for improving the standards of the individuals and society at large.
3. **Acts as a Responsible Corporate Citizen**  
Business ethics act as the driving forces for the society which are responsible for bringing its economic development. Thus, the narrow scope and restricted goals need to be avoided.

#### Importance of Business Ethics

Business ethics deal with the application of ethical rules to improve the conduct and the functioning of the business. Business ethics aren't different from the general set of ethics however they are capable of bringing drastic improvement in business.

Example, if the ethical rule of the society states that dishonesty is unethical and immoral in any form of business, then any employee who is dishonest towards any other member of the society (customers, peers, creditors, stockholders or competitors) are said to have behaved in an unethical and immoral manner.

Society expects the business to discharge its responsibilities ethically and socially by causing less harm to the society. Every business is required to follow an ethical philosophy of "do no harm". By complying with the ethical principles, firms are able to protect themselves from the wrong and unethical behaviour, efforts of competitors and others. Application of ethics in business helps the entrepreneur to improve their morale and productivity. This would be achieved only when employees are treated with dignity and integrity. Employees develop a sense of belongingness and protection when they tend to work in an ethical environment.

### **Q33. Explain the ethical theories with strengths and weaknesses.**

#### **Answer :**

Ethical theories are mainly classified into two categories. They are as follows,

1. Teleological and
2. Deontological.

#### **1. Teleological Theory**

The term "teleological" is originated from the Greek word "Telos" which means 'end results'. This theory mainly focuses on the final outcomes of research with that of the process with the help of which the autonomy of the individual could be achieved.

#### **Explanation of the Theory**

In this theory, actions are the achievements of end results which is based on the teleological theories. Teleological theory is based on the concept of goodness i.e., rightness, obligation or duty.

This theory utilizes the concept of utilitarianism, which states that it is the obligation or duty of the individual to put efforts or take up certain actions in every situation for the achievement of outcomes (good or bad). The theory of utilitarianism represents the ethical theory of welfare. The term utility means the capacity of the individuals for the attainment of desired outcomes.

According to Jeremy Bentham a social reformer, utility is a desirable attribute whose identification itself acts as an end unlike other attributes which acts as a means to the end.

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#### **Strengths of Teleological Theory**

- (i) Every action of an individual will have a certain outcome which may be beneficial or harmful. Such outcome acts as a morally relevant reason for performing specific actions. This theory states the reasons behind the consideration of certain things as correct and other as wrong (or incorrect).
- (ii) It acts as an objective for making appropriate decisions.
- (iii) A teleological decision maker is required to take up possible actions by selecting the causes of action and which results in the achievement of success.

#### **Weaknesses of Teleological Theory**

- (i) Most of the psychologists criticize the assumption of this theory which states that most of the moral reasonings are teleological in nature. Practically, moral reasoning is both teleological as well as non-teleological in nature.
- (ii) It is related to/with the human nature i.e., the promises made by an individual with others even though their breakups would be more advantageous.

#### **2. Deontological Theory**

This theory mainly determines the ethics by analysing the decision-making process. The term deontological is derived from greek word which means 'duty'.

Unlike Teleological theories, deontological theory criticizes the fact that certain actions may be considered as appropriate not because they produce benefits but because their nature of action is either beneficial or harmful. In deontological theory, goodness and other related concepts were defined.

A British philosopher, Lov. D Ross proposed a deontological theory which acts as a set of 'Absolute moral values'. There are some important features of this theory which can be explained as follows,

- (i) **Fidelity**  
The attribute of fulfilling the promises made and also the revelation of the truth.
- (ii) **Reparation**  
The act of compensating the individuals for their wrong doings.
- (iii) **Gratitude**  
Returning back the favours in polite manner.
- (iv) **Justice**  
Providing assurance that the distribution of goods occur according to the nature of people.
- (v) **Beneficence**  
By understanding various actions so as to provide service to others.

**(vi) Self-improvement**

Improving the conditions of anyone by making use of virtue and intelligence

**(vii) Non-Malificence**

Acting in a manner with a purpose of overcoming injury.

Kant has also proposed after his name as Kant's theory of moral rights. His theory is based on an objective that "Every individual should be treated unbiasedly or equally like others without any discrimination". Kant's proposes two principles.

- (a) Any action is considered to be correct when the person's action becomes the reason for his/her actions.
- (b) Any action becomes correct when person uses it for the interest of himself as well as for the interest of others.

**Strengths of Deontological Theory**

- (i) It makes sense irrespective of the nature of consequences. Example: A manufacturer has an obligation of providing a free service to the customer who has purchased product from him in case of its dissatisfied services within the warranted period.
- (ii) It is an important tool for evaluating actions.

**Weaknesses of Deontological Theory**

- (i) It has not provided a clear picture about the moral obligations of an individual and also does not propose the resolution mechanism for resolving moral conflicts.
- (ii) Ross principles are not backed up by any evidences which convince the employees to accept them.
- (iii) No causes are provided either to keep or to deny the promises which are already made depending upon the situations.

**Q34. What is ethical decision making? Give some reasons for unethical behaviour.**

**Answer :**

**Ethical Decision Making**

Ethical decision making deals with the general nature of morals and also the specific nature of moral choices, which are made by the individuals with respect to others.

Ethical standards may vary among the different cultural groups. For instance, some people consider taking bribe as unethical, whereas the others consider it as general business practice.

**Reasons for Unethical Behaviour**

- The following are the reasons for unethical behaviour,
- (i) Organizations uses varying standards of behaviour at work than at home, like privacy and cheating versus sincerity.
- (ii) The organisations and managers feels that they possess perfect knowledge and assesses the true risk inaccurately.
- (iii) The organizations and individuals significantly focuses on short terms results at the cost of themselves and others in the long run.
- (iv) The organisations prefer to satisfy their own interests rather than satisfying the interests of customers, employees or the public.
- (v) The individuals who are ready to misuse their position and power to fulfill their interests, like taking excessive compensation for themselves before the other stakeholders obtains their real share.
- (vi) There exists certain managerial values which damages the integrity . For instance, few managers pressurize the employees to bide mistakes or to do whatever they want, for completing the job.
- (vii) Sometimes the organisation rewards the behaviour which contravenes the ethical standards.

For instance-Increasing the sales, by lowering the prices and at the same time lowering the quality also.

**Moral Relativism**

Moral relativism states that morality is associated with some personal, social or cultural standard and there is no specific method to determine whether the given decision is better than the other.

The people who believe in moral relativism feels that all the moral decisions are highly personal and the individuals has got the right to lead their life in their own way. They think that the individuals should be permitted to analyse the situations and then act according to their moral values. Sometimes they argue that people playing a social role should act according to the requirements of their role.

For instance, A person or manager managing a particular department is obliged to fulfill his role and should not act as per his personal beliefs.

Few people feels that morality is associated with particular culture, society or community so the people should understand the practices of other countries instead of judging them.

From the above argument it can be inferred that moral relativism facilitates a person to justify any type of decision, unless and until it is declared as illegal.

**Kohlberg's Level of Moral Development**

The other reason for unethical behaviour of business people is their poor sense of personal ethics. The ethical behaviour of an individual is influenced by his or her level of moral development, few personality variables and certain situational factors like the job itself, supervisor and the organizational culture. Kohlberg states that a person goes through three levels of moral development which are as follows,

**1. Perconventional Level**

In this level people are concerned about themselves. Small children and others who have not passed beyond this stage, analyses the behaviours based on their personal interest (where they avoid punishment and favour others in return for something).

**2. Conventional Level**

This level includes factors of society's laws and norms and the actions are justified with the help of external code of conduct.

**3. Principle Level**

In this level, the individuals follow an internal moral code. The individuals in this level think beyond the norms and laws so as to identify the universal values or principles.

**Q35. What do you understand by codes of ethics?**

**Enlist the guidelines for ethical behaviour.**

**Answer :**

**Codes of Ethics**

The organization introduces 'codes of ethics' for employees so that they can know how to conduct and behave in the work climate. Codes of Ethics is essential for encouraging ethical behavior among the employees.

The surveys conducted on codes of ethics found that many companies implement the codes of ethics by undertaking training workshops and seminars. The top executives of the company lies to improve ethical behavior of the employees by communicating the codes of ethics in its training programs, performance appraisal system procedures and policies and in its own actions.

Around half of the U.S business corporations presently makes use of code of ethics. A report submitted by business round table, an association of CEO's from 200 large U.S. corporations states that codes of ethics is very beneficial as it:

- (a) Explain company assumptions related to employee's conduct and behaviour in different circumstances and
- (b) States how the company expects its employees to identify the ethical dimensions in decisions and actions.

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**Guidelines for Ethical Behavior**

'Ethics' are consensually accepted standards of behavior for an occupation, profession or trade.

'Morality' refers to the precepts of personal behavior which are basically derived from religious or philosophical grounds.

'Law' means the formal codes which allows or prevents specific behaviors and may or may not apply ethics or morality.

The fundamental approaches to ethical behavior to conduct code of ethics are categorized under three heads. Which are as follows:

1. Utilitarian approach
2. Individual right approach
3. Justice approach

**1. Utilitarian Approach**

Utilitarian approach states that the actions and plans must be examined and evaluated from their outcomes. Therefore, the individuals must behave in a manner which until produce greatest benefit to society and creates the least harm or the lowest cost.

Research study suggests that stakeholders or shareholders possess more power, legitimate and urgency (i.e., ability to affect the company, legal or moral claim on company resources and need for quick attention so they are preferred by CEO's and the others are neglected.

The major problem faced in this method is the complexity involved in identifying the benefits and costs related to any specific decision.

**2. Individual Rights Approach**

The individual rights approach states that human beings exercise certain fundamental rights which the managers should respect in each and every decision. The decision or behavior must be avoided if it intervenes with other's rights.

The problem faced under this method is with respect to the definition of 'fundamental rights' wherein, the US constitution contains a bill of rights which may or may not be accepted and followed world wide this approach also promotes the selfish behavior when an individual states a personal need or want as right.

**3. Justice Approach**

This approach to ethical behavior states that the decision makers must be equitable, fair and impartial while distributing the costs and benefits to individuals and groups.

This approach applies the principles of "distributive justice" which implies that the employees or people with identical dimensions like job seniority must be treated in the same manner and fairness which implies that liberty must be equal for all the individuals. However, it may also cover the concepts of "retributive justice" i.e., punishment must be in proportion to the crime and "Compensatory Justice" i.e., wrongs must be compensated in proportion to the offense. The examples of conflicts occurring between distributive and compensatory justice are affirmative action issues like 'reverse discrimination'.

#### **Q36. Discuss in detail corporate social responsibility.**

##### **Answer :**

Corporate Social Responsibility (CSR) is defined as a combination of social and environmental issues of different companies in their routine/daily business operations and also their daily interactions/communication with stakeholders. CSR was basically developed in the areas of health and safety and equal opportunities, with its development it was being questioned resulting into the creation of rules and regulations.

The nature of CSR is viewed from two different perspectives namely free market theory and stakeholder theory.

##### **1. The Free Market Perspective of CSR**

The free market theory was proposed by Milton Friedman who was one of the famous and modern advocates of the free market. Friedman has raised a simple argument with regards to CSR. He argues that the main aim of business is to increase its wealth and profits for its owners. Especially, the shareholders if the business is involved in any other activity besides the profit maximization, then it is considered to be a violation of trust and is regarded as morally wrong. There are no moral or legal obligations on the company to be greatly socially involved but company can implement its own ends as long as they are legal in nature.

According to Friedman, a company can get involved in any company project with an aim of improving its image and reputation for increasing its profits. When social responsibility gets continued it incurs costs which may be compensated by reducing the dividends and wages and also through imposition of taxes on people.

The free market theory involves many limitations as follows,

- (i) The main purpose of business in free market is profit maximization even though there are many areas which requires equal importance by the managers. Such as taking care of the shareholders, clients, physical environment, etc.

(ii) It is assumed that ethical worlds of social concern are different from business. But in case of computer firms, employees are involved not only in the project but also holds personal sense of responsibility.

(iii) It is very difficult task to identify the responsibility of businessmen and business as they are mostly questioned and negotiated.

##### **2. Stakeholder Theory and CSR**

When a company involves different group of stakeholders, it is very much difficult to separate the interests and the responsibilities of different stakeholders. In this case, stakeholder theory can be considered as a basis for identifying CSR. Initially, stakeholders were identified as employees, leaders, customers and suppliers which were essential group for the survival of the business. In 2004, Health and Norman have stated different versions of Stakeholder Theory (SHT) which are as follows,

##### **(a) Strategic SHT**

A theory that concentrates on the requirements and needs of different stakeholders which results in the better attainment of the outcomes of the business.

##### **(b) SHT of Governance**

A theory which identifies the role of stakeholder groups in the management.

##### **(c) Deontic SHT**

A theory which enhances the policies of company by evaluating legal rights and needs of the different stakeholder.

Though it is simple to view these theories in the perspective of larger stakeholder, but Sternberg have argued it against the CSR interest by considering the following points,

- (i) In order to become responsible for someone, then we must be accountable, but in case of stakeholders theory, the company to whom it is accountable is not clearly explained.
- (ii) There are many chances to have conflict among interests of stakeholders, which needs to be resolved.

However, some stakeholder theorists opposed it and argued that it is not possible to be accountable to shareholders and to identify a shared responsibility for widen stakeholders.

#### **Q37. What are the arguments for and against CSR?**

##### **Answer :**

*Model Paper-III, Q10(b)*

##### **Arguments For Corporate Social Responsibility (CSR)**

Following are some of the arguments which are in favour of Corporate Social Responsibility (CSR),

**1. Public Expectations of Business**

The expectations of public relating to business have changed which is a favourable argument for social responsibility. Business institutions came into existence to fulfill the needs of the society. If business plans to be variable in long run then it should be responsive and give what society desires.

**2. Better Environment**

Social responsibility creates a better environment for business. It leads to a better society which offers more favourable environmental conditions for business functioning.

**3. Balance Responsibility with Power**

The responsibility of business must be associated with its power as businesses possess large amount of social power. They influence economy, minorities and other social problems. In order to match social power, an equal amount of social responsibility is needed.

**4. Business Possess Resources**

A favourable argument for social responsibility is that business possess many resources. These resources can be utilized to work for social goals.

**5. Prevention is better than Cure**

It is better for a business to solve its social problems without any delay because they can be handled economically before they develop into serious problems.

**6. Better Employees**

Socially responsible firms can easily hire employees as they are more attracted towards socially responsible firms. It is well known in labour market that present and potential employees value corporate social performance of their employers.

**Arguments Against Social Responsibility**

Following are some of the arguments which are against the Corporate Social Responsibility (CSR),

**1. Profit Maximization**

Business which aims at profit maximization are against corporate social responsibility. In the world of poverty and hunger, business must focus on its economic efficiency and economic values must be used to measure its success.

**2. Lack of Social Skills**

Usually, managers are good at solving managerial issues and not so efficient in dealing with social problems. Their outlook and skills are basically economic and they are not comfortable in social matters. So, this argument is against corporate social responsibility.

**3. Social Overhead Cost**

Cost relating to social responsibility is considered as social cost and it benefits the organization in future. It is one of the main reason for poor performance of government undertakings of India.

**4. Lack of Accountability**

Usually, business are not directly accountable to the people. So, it is not effective to give responsibility to business for those areas for which it is not accountable. Unless, a mechanism is developed by the society to have direct social accountability from business to the public, business must focus only on profit maximization objective.

**5. Lack of Broad Support**

Business which involve social objectives does not have much support from other groups of society. Some people do business to become more socially involved and others are against the idea. There is no mutual understanding among general public, intellectuals and government.

**6. Scalability of Concept**

MNCs does not have any genuine concern for CSR. The main problem lies in scalability of the concept of CSR which gives limited size of the market for value. Some firms are efficient in labour and environmental standards, it does not mean that same firm is also efficient in other markets.

**SHORT QUESTIONS AND ANSWERS**

**Q1.** Write a note on corporate governance and e-governance.

OR

**Corporate Governance**

(Refer Only Topic: Corporate Governance)

(April-15, Q1(i) | May/June-12, Q1(j) | May-13, Q1(i))

OR

**What is corporate governance?**

(Refer Only Topic: Corporate Governance)

(Model Paper-II, Q2 | May-17, Q1(h))

**Answer :****Corporate Governance**

The term 'Corporate Governance' refers to the set of mechanisms which are being used in the relationships between shareholders which is further being used to ascertain and monitor the strategic decisions and performance of the organization.

Governance also refers to a means for creating order between the firm's owners and the top-level managers. Therefore, corporate governance symbolizes the company's values. In case of modern corporations, the main aim of the corporate governance is to assure and fulfill the interests of top-level managers who are associated with the interest of the shareholders.

**E-Governance**

E-governance is an IT driven system of governance which serves the needs of customers and businesses in less cost and effectively. It aims at developing more responsive, productive and effective administration. It is referred as SMART governance as it uses IT to process government functioning. SMART governance tries to generate simple, moral, accountable, responsive and transparent governance.

**Q2.** What do you understand by social responsibility and strategic leadership?

OR

**What is meant by social responsibility?**

(Refer Only Topic: Social Responsibility)

(Model Paper-I, Q5 | May-17, Q1(j))

OR

**Strategic Leadership**

(Refer Only Topic: Strategic Leadership)

**Answer :**

April/May-14, Q1(j)

**Social Responsibility**

The social responsibility concept states that a private corporation apart from making profits, should be responsible towards the society. The strategic decisions apart from influencing the corporation would influence other things also. For example. If a firm's decision is to reduce the cost by shutting down few plants and discontinuing stopping certain product lines then this would influence the firm's workforce as well as the communities where the plants were situated and the customers whose source was only the discontinued product. Hence the managers should be capable of ethically handling these conflicting interests and should formulate a feasible strategic plan.

**Strategic Leadership**

Strategic leadership is regarded as one of the most important part of the organization. Strategic leadership is defined as the individual's capacity to anticipate, envision, maintain flexibility, to think strategically and to work along with others for implementing change which will create a competitive advantage for the organization.

Strategic leadership directs and inspires in creating and executing vision, mission and strategies for accomplishing the organizational goals.

**Q3.** Write a note on strategic entrepreneurship and corporate entrepreneurship.

**Answer :****Strategic Entrepreneurship**

The term strategic entrepreneurship refers to the process of taking entrepreneurial actions with the help of strategic perspective. At the time when the firm is involved in 'strategic entrepreneurship' where it would find various opportunities available in the external environment and would make use of these opportunities with the help of innovations. This process is termed as 'entrepreneurship dimension' of strategic entrepreneurship. The most suitable and appropriate means of managing and controlling the firm's innovation efforts is called as 'strategic dimension'. Therefore, it is clear that those firms who are involved with the strategic entrepreneurship process usually integrates their actions in order to identify various opportunities and innovate/introduce it successfully.

In this period of competition, the success and survival of any firm mainly depends on their ability to constantly find out the new opportunities and promptly generate/create innovations to pursue them.

#### **Corporate Entrepreneurship**

Corporate entrepreneurship forms a major part of entrepreneurship discipline. It is mostly used for the success and survival of established firms because, it becomes easier to increase their performance and also helps in increasing the growth opportunities.

Therefore, innovation and entrepreneurship plays an important role in the extent of success attained by the newly established firms. Thus, corporate entrepreneurship is used as an application with respect to entrepreneurship incase of an established firms.

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#### **Q4. What is strategic control and operational control?**

**Answer :**

##### **Strategic Control**

Strategic control is concerned with tracking the strategy as it is being implemented, detecting problems or changes in underlying premises, and making necessary adjustments.

In contrast to post action control, strategic control is concerned with controlling and guiding efforts on behalf of the strategy as action is taking place and while the needed result is still several years into the future.

##### **Operational Control**

Operational control is widely used in organizations because it is related with the evaluation of performance of the organization. Operational control strives to allocate organizational resources and use them for assessing the performance of organizational units like strategic business units, divisions and so on. This assessment is done to determine the contribution of organizational units towards the attainment of the organizational goals.

---

#### **Q5. Enlist the objectives of business ethics.**

**Answer :**

The ethical business objectives are as follows,

1. To determine good conduct of a person and to set a standard. In this context, it is important to manage different interrelated and difficult issues which may have psychological, legal, commercial, philosophical, sociological and political nature.
2. The other ethical objectives are as follows,
  - ❖ To analyze human behaviour by conducting an assessment regarding morality and immorality.
  - ❖ To develop moral standards and norms of behaviour.
  - ❖ To make judgement on human behaviour on the basis of achieved standards and norms.
  - ❖ To suggest moral behaviour and make recommendations regarding the ideal behaviour of the employers.
  - ❖ To give an opinion or attitude regarding human conduct.

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#### **Q6. List out the features of deontological theory.**

*Model Paper-III, Q1*

**Answer :** A British philosopher, Lov. D Ross proposed a deontological theory which acts as a set of 'Absolute moral values'. There are some important features of this theory which can be explained as follows,

- (i) **Fidelity**  
The attribute of fulfilling the promises made and also the revelation of the truth.
- (ii) **Reparation**  
The act of compensating the individuals for their wrong doings.
- (iii) **Gratitude**  
Returning back the favours in polite manner.
- (iv) **Justice**  
Providing assurance that the distribution of goods occur according to the nature of people.
- (v) **Beneficence**  
By understanding various actions so as to provide service to others.
- (vi) **Self-improvement**  
Improving the conditions of anyone by making use of virtue and intelligence
- (vii) **Non-Malificence**  
Acting in a manner with a purpose of overcoming injury.

**INTERNAL ASSESSMENT****I. Multiple Choice**

1. Major characteristic features of strategy implementation are \_\_\_\_\_. [ ]  
(a) Action orientation  
(b) Integrated process  
(c) Wide ranging involvement  
(d) All the above
2. \_\_\_\_\_ are intended to steer the company towards its long term strategic direction. [ ]  
(a) Premise control  
(b) Strategic control  
(c) Implementation control  
(d) Special alert control
3. The model of strategy implementation involves \_\_\_\_\_. [ ]  
(a) Project implementation  
(b) Procedural implementation  
(c) Resource allocation  
(d) All the above
4. The techniques used for strategic control are \_\_\_\_\_. [ ]  
(a) Strategic momentum control  
(b) Strategic leap control  
(c) Both (a) and (b)  
(d) Comparative analysis
5. \_\_\_\_\_ is concerned with finding out the strengths and weaknesses of the organization/firm/company in a definite form. [ ]  
(a) Internal analysis  
(b) Comprehensive analysis  
(c) Comparative analysis  
(d) None of the above
6. Risks associated with e-Government are \_\_\_\_\_. [ ]  
(a) Demand for elements  
(b) Level of trust  
(c) Political stability  
(d) All the above

**STRATEGIC MANAGEMENT****5.42**

7. The nature of CSR can be viewed from different perspectives namely \_\_\_\_\_. [ ]

- (a) Free market theory
- (b) Stakeholder theory
- (c) Both (a) and (b)
- (d) Strategic theory

8. \_\_\_\_\_ means undertaking entrepreneurial actions from strategic perspective. [ ]

- (a) Corporate entrepreneurship
- (b) Entrepreneur dimension
- (c) Strategic entrepreneurship
- (d) Entrepreneur application

9. The themes of strategic leadership involves \_\_\_\_\_. [ ]

- (a) Humility
- (b) Trust worthiness
- (c) Sense of humor
- (d) Strategic vision and Pragmatism

10. McKinsey proposed framework of strategy implementation which involves \_\_\_\_\_. [ ]

- (a) 7-S
- (b) 5-C
- (c) 4-P
- (d) 7-P

**II. Fill in the Blanks**

1. Under \_\_\_\_\_, three issues require special consideration which are location, ownership and functional strategies.
2. \_\_\_\_\_ is designed to monitor a broad range of events inside and outside the company which may threaten the strategy.
3. Implementation of a strategy is much more difficult task than a \_\_\_\_\_.
4. The procurement, commitment and distribution of the financial, human and physical resources to achieve organizational goals is known as \_\_\_\_\_.
5. At \_\_\_\_\_ level, managers evaluate the compatibility of the strategy with the environment.
6. \_\_\_\_\_ plays an important role in enhancing economic efficiency of a firm.
7. \_\_\_\_\_ is an arrangement of state government to have SMART governance.
8. \_\_\_\_\_ are characterized by a high personnel involvement and a strong focus on individual initiative and creativity.
9. \_\_\_\_\_ is essential for encouraging ethical behaviour among the employees.
10. \_\_\_\_\_ emphasize on implementation i.e., ‘carrying out/conducting the things right’.

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**KEY****I. Multiple Choice**

1. ( d )
2. ( b )
3. ( d )
4. ( c )
5. ( a )
6. ( d )
7. ( c )
8. ( c )
9. ( d )
10. ( a ).

**II. Fill in the Blanks**

1. Strategy implementation
2. Strategic surveillance
3. Strategy formulation
4. Resource allocation
5. Strategy
6. Corporate governance
7. E-Governance
8. High performance culture companies
9. Codes of ethics
10. Behavioural control.

**III. Very Short Questions and Answers****Q1. What is Pragmatism?****Answer :**

Strategic leaders should adapt a pragmatic approach to solve the management problems and for the attainment of desired results. In order to be pragmatic, the leaders should follow those methods which helps the firm in the optimal allocation and utilization of resources.

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**Q2. What do you mean by Ethical Decision Making?****Answer :**

Ethical decision making deals with the general nature of morals and also the specific nature of moral choices, which are made by the individuals with respect to others.

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**Q3. What happens in Adaptive Cultures?****Answer :**

In the adaptive cultures, the organisational members are ready to accept the changes and ready to face the challenges of initiating and implementing new strategies.

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**Q4. Define Strategy Implementation.****Answer :**

According to Harvey, "strategy implementation is engaged in executing the strategic game plan. It is comprised of setting policies, designing the organization structure and developing a corporate culture which helps to meet the organizational objectives".

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**Q5. What do you understand by Strategy Evaluation and Control?****Answer :**

Strategy Evaluation and Control (SEC) is the final stage of the strategic management process. The primary objective of it is to ascertain or analyze the effectiveness of specific strategy in attaining organizational objectives and taking suitable corrective actions wherever and whenever required.